**Cambridgeshire County Council**

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## Introduction

### The integrated eBusiness Suite

In Cambridgeshire, all financial processes take place within the umbrella of the eBusiness suite – a single, integrated system which controls and manages the whole process of ordering and payment of invoices, debt management, budgeting, Payroll payments and project management.

The Oracle General Ledger takes costs and income in from all the other modules (also known as sub-ledgers) and displays them in summary form, against budgets and profiles that it alone holds. If you want to know more about a transaction, you must look in the sub-ledgers for the detail.

The General Ledger is usually at most only a day behind in terms of information coming in from purchasing, accounts payable, accounts receivable, payroll and project cost management. This means that it is "real-time" information.

Whilst some changes made in the sub-ledgers feed through to the General Ledger, there is no feed back from General Ledger to the other ledgers. Therefore, journals, adjustments and code changes made in general ledger alone without reference to the sub-ledgers will result in problems in reconciling information from sub-ledger and main ledger sources.

The Oracle eBusiness Suite is the prime financial record for the Authority and, as such, must record accurate information.

### What does the general ledger show?

The General Ledger shows, for each accounting code combination:

**Budgets**

The total budget for April – March, for each financial year, including those that have now been closed (back to 2001-2002), and, from each January, the future year approved budget.

**Profiles**

The amount expected to be used or collected of the total budget amount, against each code combination, in each month in the calendar year. For every year going back to 2001-2002 and going forward into the latest approved budget year.

**Actuals and Accruals (shown together)**

All accrued costs (Goods receipt notes (GRNs), journals adjusting timing at yearend), and actual costs (journals paying internal bills, cash income, payroll payments).

**Encumbrances**

This is the American term for open commitments (the outstanding amount for purchase orders that have been approved, and not closed: the amount of the purchase order left after allowing for all GRNs against it).

Return to overview.

**Integration and accruals**

What are shown in the General Ledger are not just cash transactions, but *accrued* and *committed* transactions.

A **cash** transaction would be one which is shown in the general ledger when the cash has been or is about to be paid, for example showing an invoice only when it is at the stage of having been paid to a supplier.

An **accrued** transaction is an entry made to the accounts when the certainty over amounts and sums has crystallised but *before* the cash is paid.

- For example, we show GRNs entered into the purchasing module as **accruals** in General Ledger because they represent the amount that we know we have to pay to the supplier, because we have received the goods / services and have recognised that by entering a GRN.

- Similarly, we show debtors invoices issued as being **actuals** in the General Ledger because the debt has actually arisen, and we have every confidence that we will receive the money.

In Oracle terms, accrued and actual costs are shown together as actuals in the General Ledger.

A **committed** transaction is one which recognises that there is a legal obligation arising to pay a sum to a supplier for goods received at a future date, because a formal order has been sent to the supplier stating our requirements, which constitutes a legal contract. These are shown separately from accrued and actual costs, because at yearend they are not counted for the purpose of preparing final accounts.

- Approved purchase orders give rise to commitments: unapproved ones do not because at that stage they have not been sent to the supplier and therefore the legal obligation to pay at a future stage if the order is met does not exist.

| | Cash would show | Accrued does show |
|---|---|---|
| Purchase Orders (SSP) | | |
| Approved orders | Nothing | Order amount as *commitment* |
| Goods received | Nothing | Order value £0, Actual cost = value of GRN |
| Invoice paid | Amount paid | Not shown |
| Income and Debt (AR) | | |
| Invoice issued | Nothing | Value of invoice |
| Invoice paid | Amount received | Not shown if matched to invoice |

T I M E
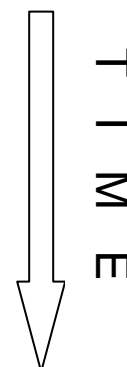
The benefit of this is that the general ledger can then be used to show the current position as if all cash transactions had taken place, reducing lags in

information caused by debtors and creditors paying invoices late, or sending accounts in to be paid late.

**Procure to Pay overview:**

| Requisition Approved | Goods Receipted | Invoice Received |
|---|---|---|
| budget holder's account shows a commitment | budget holder's account shows actual spend | budget holder's actual spend only changed if a price variance |
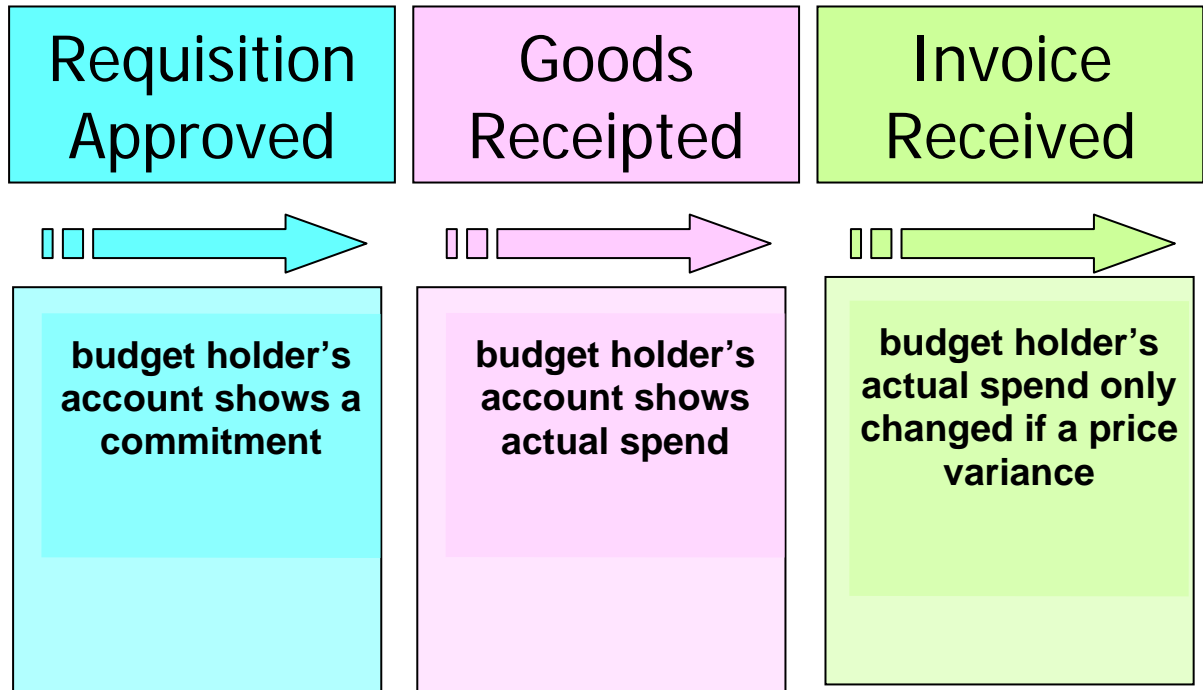
**Accounts Receivable Overview**

| Invoice Raised | Invoice Paid | Invoice Written-off |
|---|---|---|
| budget holder's account shows actual income | budget holder's account shows no change | budget holder's actual account shows £0 income (or debit if different **year**) |
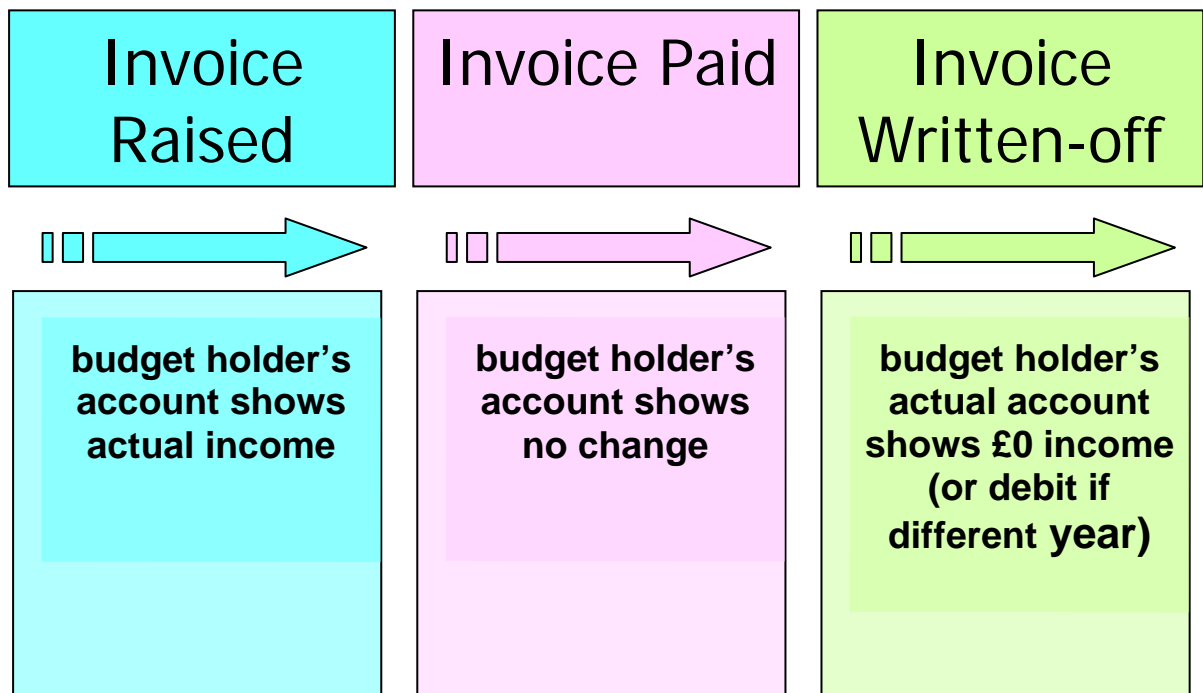
**When to expect information to update in the General Ledger**

**General Ledger**

A journal done on-line in GL: within 5 minutes of the action being saved.
A virement done on-line in GL: within 15 minutes of the action being saved.

**ADI**

A journal entered using an ADI worksheet will take as long as the request in ADI takes, plus 5 minutes to post in GL.

**Self Service Purchasing**

All changes made during the day in SSP will update overnight into GL: approved purchase orders processed as commitments, GRNs processed as accruals.

**Accounts Payable**

All certification slip invoices entered into Accounts Payable during the day update to GL overnight as actuals: this means that they are posted to GL **before** they are paid.

**Accounts Receivable**

Invoices marked as complete during the previous working day will be posted to GL by 10am.

**Projects**

All journals and timesheet entries that target GL from the previous working day are targeted as journals to GL by 10am, the journals will then take 5 minutes to process.
If you are running reports trying to reconcile GL with a sub-ledger, don't do it before 10am as this will inevitably result in discrepancies,  caused by this time lag.

**What is the coding structure in Cambridgeshire?**

The Cambridgeshire accounting code comes in six segments, placed in descending order of use.
There are 25 characters in the code, as follows: -

| Cost centre | Subjective | Objective | Project group | Balancing | Spare |
|---|---|---|---|---|---|
| MN92510 | 21000 | M65 | 0000 | 00 | 0000 |

**How to "read" the accounting code**

Segment 1 – The cost centre    -    WHO AND WHERE

Cost centres start with two letters .The next five numbers identify a particular department: those ending 000 are "main" cost centres, whilst those ending in other numbers usually indicate smaller units of the main cost centre or ongoing balance sheet items for the cost centre.

Segment 2 – The "subjective"    WHAT, FROM WHOM

This is the part of the code that works hardest. It describes:

- What is being bought
- From whom (internally, externally, from another local authority, from a private sector outsourcing arrangement, as part of a joint working initiative)
- Whether the expenditure is capital, revenue or balance sheet i.e. the source of funding.

   Only items approved in the budget book as part of the revenue budget should be coded to 0-99999.
   Only items approved as part of the Council's capital programme should be coded to Z1000-Z1499 (the work in progress codes), and they must be accompanied by a valid general ledger (GL) project group code.
   All other Z codes are for other items related to the balance sheet.

- Various levels of detail about the expenditure. Working from left to right there is a tree of information which allows the transactions to be summarised in a hierarchical parent-child relationship for external reporting, ie
  - 0      salaries
  - 01     teaching salaries
  - 011    classroom teaching salaries

- There are ranges reserved for different types of expenditure and income:
  00000 – 09999    staff & salaries only
  70000 – 79999    accounting adjustments: no real expenditure / income
  80000 – 99999    revenue income: all income should always be coded to an income code and **never** netted off expenditure

Segment 3 – The "objective" -     WHY
This describes the purpose of the expenditure and **must** be used to further classify the subjective type. For example, it may be that the cost centre is a social services team. They spend money on a number of different areas: child, adult, supporting different client groups with different needs such as physically disabled clients so the objective describes the type of provision.

Segment 4 – The "project group"  PROJECT

Every capital project has a project number assigned to it in the projects module: this is used when ordering goods and services. The project group code is part of the accounting code and identifies projects that come under a particular umbrella / theme: for example, all minor capital works projects for asbestos removal in a particular financial year.

The GL project group code is required to ensure that capital items are reflected correctly in Oracle Projects as well as the general ledger. It should be noted that a GL project group code may have a number of individual projects making up the group. Therefore the GL project group code should not be confused with individual project codes.

**How do codes get generated?**

In SSP, the code for an order line is created as follows:
- The requisitioner's profile creates the cost centre and objective, and the subjective comes from the purchasing category chosen.
- The cost centre and objective can be overwritten using "Power" or "Proceed to Checkout." The subjective cannot.
- An order line related to a project is created as follows:
  o The project number quoted on the Billing page delivers cost centre, objective and project number
  o The subjective comes from the Expenditure Type chosen (this overwrites whatever Purchasing Category was chosen during the shopping phase).
  o None of this coding can be overwritten during later parts of the checkout phase

In AR, the code for an invoice line is created as follows:
- Cost Centre and Objective come from the Salesperson chosen when the invoice is entered onto the eBusiness Suite.
- The Subjective and Balancing segment come either from the Line Item, or need to be typed in manually.
- Invoices relating to projects should be raised through the projects module and not on-line in AR, if at all possible.

In the HR module, the payroll coding information is generated as follows:
- Cost Centre and Objective come from the Organisation that the post is linked to – these match Organisations used in the SSP module
- Subjective comes from the Element level: the type of job the person is performing is matched to a subjective code which cannot be overwritten
- By-claims coding information is typed in from forms, but the code combination is checked against the GL database at the time of typing to ensure that correct codes are used
- Mileage claims coding information is typed in from forms, but whilst the cost centre and objective can be used as required, the subjective is linked to the type of cost being reimbursed and cannot be overwritten
- The Project and Balancing parts of the code are not used populated except by entering 0000 for any payroll / expenses information: if project payroll costing is required, then timesheets must be entered into the Projects module.

If you find errors or inconsistencies in links between the sub-ledger items and accounting codes, please make them known to the module owners i.e. Procure to Pay Team, Debt Management Team, HR. It is not tenable in the longer-term to do journals in GL to move costs to what you consider to be the

"right" code, and it also creates reconciling difficulties in matching the sub ledger information to the GL information.
Return to overview

**Budgetary Control Overview**

Before the start of the financial year, as part of the council tax setting process, the Council as a whole sets the total amount that it needs to fund its commitments for the coming financial year (April to March).

In order to be accurate, Cambridgeshire does this on a bottom-up basis: it asks budget holders to calculate what they require, and derives the total required from those figures and a number of other sources including information on specific grants and central government grant.

So, at the start of the financial year, each budget holder has a detailed budget, with "profiles" (estimates of expenditure and income per month), for the whole financial year.

The following principles are the underlying foundation of the budgetary control reporting process:

- Budget and profiles are set once at the start of the financial year and represent the plan for the year

- Corrections to actuals are made only to correct miscodes and performance and are completed on the system prior to month end by finance staff / admin authorised to do so

- Where specific circumstances prevail, corrections will also be allowed to profiles during the pre-month end window. However, these will be on an exception basis and definitely not the rule.

- End of month budgetary control reports received by budget holders and reviewers will contain the same information as that consolidated into the formal BCR reports because all corrections are done on system.

- Variance from the planned profiled budget will occur during the year and will require narrative explanation not reprofiling

- The forecast outturn represents the budget holders and budget reviewers expectation of the final position after any remedial actions they plan to take
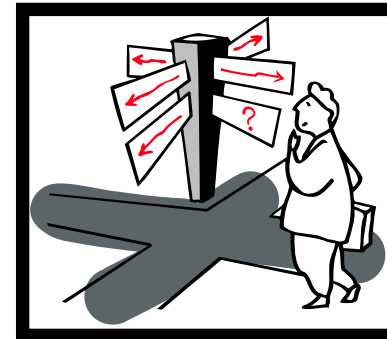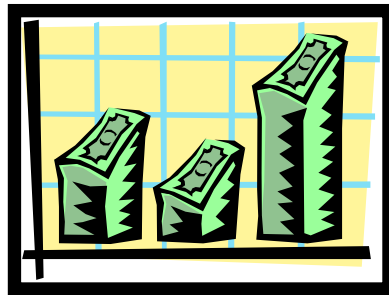
The budget holders role in budgetary control is about reviewing the reported figures with a view to:

- Providing their budget reviewer and financial adviser with a detailed explanation of why material variations from profile have occurred

- Checking that the costs and income showing against the cost centre are recognised, valid and match what has been approved / previously agreed by the budget holder

Month end Processes

- Preparing a valid forecast outturn estimate that takes account of changes that inevitably take place in the service plan each year (staff absences, more clients than expected, bad weather etc)

- Assisting in the calculation of virement packages (movements between budgets balancing to zero) and following the formal virement approval route

**Budget Management Overview**

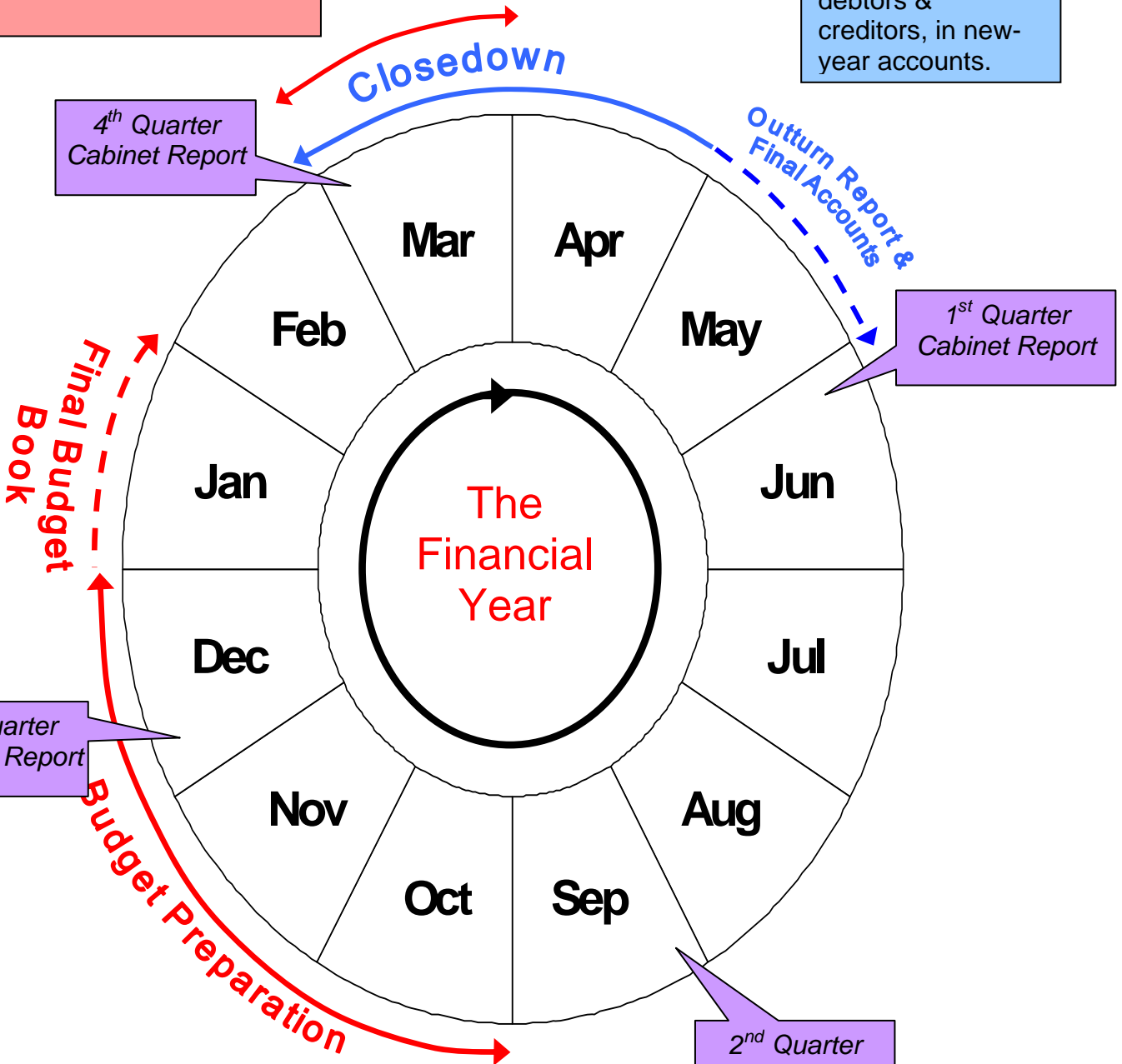| Budget Book | Profiling | Exception reporting | Forecast Outturn | Budgetary Control |
|---|---|---|---|---|
| The Budget Book is the document which, each winter, is approved by members for the forthcoming financial year. It approves the "**Original Budget**" – the split of financial resources between services & divisions and it states the service targets they have set themselves for the forthcoming financial year. As plans and targets change during the year, these changes are made to the "**Revised Budget**", but the original is kept as a baseline. | According to how and when services will be provided, and when those costs will accrue, the budget is split into monthly amounts. The purpose of a profile is to set a target: if all goes to plan on the service side, how much should you have spent / earnt at a particular date to reassure yourself that at yearend the budget will be met? | An exception is a difference between the planned budget and actual expenditure which is giving cause for concern because it needs to be managed in order to control it. Such exceptions should be reported by budget holders to budget reviewers. They may then report them further up the reporting line to the Director of Finance and Performance whose job it is to ensure that, in a year, and across the council as a whole, these exceptions are balanced. | The forecast outturn estimate represents the budget holders and budget reviewers expectation of the final position after any remedial actions they plan to take. The forecast outturn process is a means of identifying for members the actions that need to be taken to bring about a balanced budget at yearend, and what the financial consequence of those will be in this, and future, financial years. | Budgetary Control for the authority as a whole focuses on the totality of expenditure, and summarises it, rather than focussing on individual exception items. It is formalised and scheduled and provides a checkpoint for corrective action. Financial reports are prepared for members and OMTs. |

**Overview of the annual cycle**

**Budget Profiles**
Complete final profile review prior to start of new financial year

Reserve Debtors & Creditors
Reversing journal of significant debtors & creditors, in new-year accounts.

Closedown

Outturn Report & Final Accounts

4th Quarter Cabinet Report

Final Budget Book

1st Quarter Cabinet Report

Mar Apr

Feb May

Jan Jun

The Financial Year

Dec Jul

3rd Quarter Cabinet Report

Nov Aug

Budget Preparation

Oct Sep

2nd Quarter Cabinet Report

**Budget Profiles**
Budget and budget profiles are set once at budget preparation and represent the plan of spending for that year.

**Quarterly Cabinet Reports**
- Combine information from Service memos into single report
- Identify main variances & Forecast Outturns

**Timetable for budget monitoring and forecasting outturn:**

During 2006/07 it is hoped that improvements in reporting, in particular, improvements in summarised information for finance units, will result in changes being possible in speeding up month-end reporting.

**Current and Future estimates for month-end procedures:**
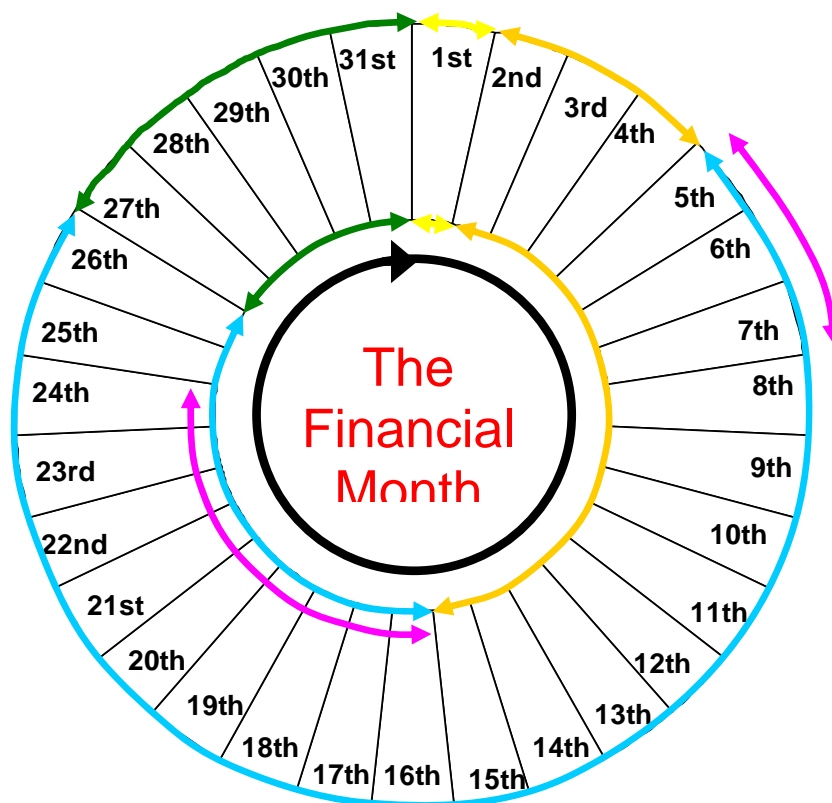


The inner arrows show the current timescales, the outer arrows show the target timescales:

The processes are as follows;

**Green** = Confirm Forecast Outturn Projection with System Information – financial advisers compare information from budget holders with information on-line to ensure that the two are consistent.

**Yellow** = the time taken to actually capture and consolidate general ledger information: this is an area expected to improve dramatically

Orange = finance unit prepares Service Memos: this is what goes with the figures to management teams and members. The memo contains technical reassurance such as reconciliation statements, which finance teams prepare, but critically includes explanations of variances to date and forecast outturn estimates. This detailed commentary is what budget holders must contribute to.

**Blue** = period of preparation for next month: discussions between financial advisers and budget holders

**Preparing for month-end and meeting the reporting deadlines**

In order to meet the overall deadlines, budget holders must aim to have their adjustments completed as soon as possible after month-end: this means starting *before* the accounts close

Suggested Monthly Checks

In order to ensure that there is as much data, as up to date as possible, included in the month-end process it is prudent to do the following **before month-end** / during the month to ensure that the data in the month-end reports is accurate.

| Description | Check |
|---|---|
| **Staff who have left or are on long term leave:** | |
| • Check the requisitions that they have made: do any appear to require closing? | |
| • Check that the information on HR is up to date: correct leaving date shown | |
| • Check that the assets they used have been given back: laptop, mobile phone, telephone card, purchase card, lease car. And that the contracts for those have been ended. | |
| **Orders** | |
| • Remind all staff to GRN orders that have been filled during the month and update goods returned | |
| • Ensure order amendments / cancellations are sent to Procure to Pay in good time for the adjustment to be made before month-end | |
| • Check that all requisitions are either rejected or approved the day before month-end. | |
| **Payments** | |
| • Check that any invoice requiring a certification slip procedure has been passed to Procure to Pay in good time | |
| • Put in an Imprest claim | |
| **Income and Debt** | |
| • Review the debt management report and ensure all debts are checked for their accuracy, and invoices cancelled if required. | |
| • Ensure cash and cheques on site at month-end are as low as possible so that as much income is in the bank as possible. | |
| • Ensure invoices have been raised for all new debts incurred in the month | |
| **GL/ Projects** | |
| • Check that any code correcting journals have taken place, in the right ledger (Projects / GL) | |
| • Check that any virements have taken place, capital in Projects, revenue in GL | |

**Roles and Responsibilities**

**<u>budget reviewers</u>**

All budget holders have another officer above them who acts as their budget reviewer.

A budget reviewer

- Approves the budget holder's internal systems and delegation arrangements

- Agrees packages / remedies with the budget holder to keep within budget should over-spends / under-spends emerge

- Is the person who should communicate management team decisions to the budget holder

**<u>budget holders</u>**

A single budget holder is assigned to each budget, so that there is clarity about who is in control. If further delegation has taken place, the named budget holder is still **formally ultimately responsible for the following aspects of financial management.**

A budget holder is responsible for:

- Setting their budgets accurately and ensuring they can meet planned service targets

- Reviewing the budget each month, to ensure they spot problems and act to manage their budget within its overall total where possible

- Approving virements within their revenue budgets within delegated limits

- Updating monthly forecast outturns in accordance with published timetables

- Reporting any potential over-spending or under-spending to their budget reviewer

- Identifying and reporting to their budget reviewer areas where in-year problems are going to give rise to pressures during budget prep.

**<u>Financial Administrators</u>**

In relation to reporting, the financial administrator's role is for the budget holder to determine, but unless an approved Local Scheme of Financial Management is in place, the role should not exceed the following:

- Running reports from the eBusiness Suite

- Reviewing the reports to highlight issues and problems for consideration/action by the budget holder

- Capturing information for the outturn forecast onto a spreadsheet from the eBusiness Suite and preparing calculations and estimates in relation to the forecast outturn

- Making on-screen enquiries to supplement information found on the reports as required

- Ensuring that local management information is accurately calculated and reconciled to the eBusiness Suite Financials reports

- Preparing calculations in relation to required virements as required

- Financial administrators should not action journals, forecast outturns, or virements without the express approval of the budget holder, and only where they have received appropriate training and it is agreed with the financial adviser that they will take on this responsibility

## **Further Delegation by budget holders**

Where there has been a delegation of responsibility in relation to budgetary control (approved within a Local Scheme of Financial Management), the **formal ultimate responsibility for managing budgets rests with the designated budget holder**.

Consideration should be given to the following:
- Setting a timetable for internal reporting such that the knowledge & predictions of the budget manager can be incorporated into the budget holder's overall financial reporting
- Practical arrangements for splitting and communicating reports
- Sphere of responsibility: how much independent action will the budget manager be allowed to take to meet over and under-spends?
- Has a balance been reached between input in terms of time to manage the budget, and the size of the budget

**Understanding and Changing Targets**

**Monitoring against spending plans and profiles**

The "control" of budgetary control is only achieved by acting to bring expenditure and income back on target. This means having a thorough understanding of the targets themselves, not just in terms of the monetary targets but in terms of the service targets which underpin them.

If a budget holder is managing the budget well, then tight control of the service delivery in terms of checks and balances that service targets are being met, allied with adequate administrative procedures, should result in good financial control.

**Service Targets**

Service targets are set during budget preparation: essentially they are estimates of the service outputs that can be achieved for the approved budget (inputs). This might be a combination of service delivery targets expressed in different ways, for example:

- X clients of a particular type served
- Improving response times for certain services from x days to y days
- Providing a flexible response capability in case of emergencies
- Providing a corporate planning function in relation to the service area

More information on setting service targets is to be found in the training on Budget-setting.

Service targets are therefore the top of the tree: they express at a high level what the goals of the service unit are, for the input that has been approved. They are broken down in three different ways which provide different angles for monitoring and control:

- spending plans, which might delegate a certain "pot" of money to each officer in a team in order to deliver value;
- profiles: monthly "chunks" of the budget which are calculated, e.g. if we deliver 10% of our output in month 1, we will pay / recognise goods received for 80% of that in month 2, and 20% in month 3, and that will cost £x. These profiles are entered as figures onto the general ledger, and used to show that financial control is following / closely allied to service delivery control, as we would expect on a well-managed budget;
- project budgets: sometimes, a budget is broken down not into spending plans such as a "pot" for East Cambs, a "pot" for West Cambs etc, but hypothecated to certain schemes, which may in themselves have been scored and ranked in order to get onto the list. An example is the Highways R&Rs schemes whereby measures of the road condition are taken, and along with other data, provide a score for a scheme which is then compared to the urgency of other schemes to determine which financial year the work must be done in. The list is then approved in portions, with further approvals later in the year once the costs of the first schemes are known. These project budgets may or may not be held on the Projects module.

### Setting spending plans

Spending plans are set by the budget holder / overall team manager, who is aware of historical delivery costs, arising need, variations in area. The spending plans may also be varied according to the workload and hours worked of the officer: a new member of staff, with many training hours to undertake, cannot be expected to spend as much as an experienced member of staff. Whatever information is used to set these plans, the basic assumptions and workings should be recorded, and the plans should be communicated in good time to staff. If variations are required during the year this should be agreed by the budget holder, and communicated to the people spending the money.

### Setting profiles

Profiles are more a numerical exercise than a professional one: the service targets, historical spending trends, supplier delays in invoicing, and number of delivery days per calendar month are all factors that can affect the amount that is actually expected to be spent in a given period on the financial calendar.

The council's policy on profiles is that they are set once during budget preparation and only revisited / recalculated on an exceptional basis during the year if large (material) variances arise.

Here are some examples of profiling:

### <u>Example A – Fixed Overhead Profiling</u>

Fixed overheads are called that because they should neither vary after the budget is set, nor vary if the underlying nature of the budget changes: come hell or high water, the amount for this element in the year is likely to be the same!

For example, an SLA with a provider agency, such as the finance unit: having agreed the SLA, and the timing of the charge it is possible to pick one of the standard profiles during budget preparation such as "quarterly in arrears" and be sure that this will then profile the budget accordingly:

SLA    fixed fee of £2500

To be paid quarterly in arrears, i.e. June, September, December, March, in equal proportions.

Four payments of £625 each.

The profile on the general ledger will look like this:

|  | Each month | Cumulative |
|---|---|---|
| April |  |  |
| May |  |  |
| June | £625 | £625 |
| July |  |  |
| August |  |  |
| September | £625 | £1250 |
| October |  |  |
| November |  |  |
| December | £625 | £1875 |
| January |  |  |
| February |  |  |
| March & yearend | £625 | £2500 |

## Example B – Variable overheads

An example of this might be the budget for stationery.

The budget is usually a small proportion of the overall total budget, but it is controllable: in extremis, savings can be made in the short-term here which can fund small over-spends on other items. So, it is important to be aware of pressures and savings building up on the budget.

Usually, a standard profile of "monthly" or "general" would be used: monthly is a straight twelfth of the expenditure, general is a calculated % per month based on the prior year's total council expenditure and is more of a statistical measure. The important thing is to check every quarter that whatever savings / pressures are showing are realistic, and take action to change forecast outturn if the savings / pressures are not realistic.

## Example C – Tendered variable costs

These are complex profiling issues, and in this case a financial adviser might set the profile, but you need to be aware how far from the simple facts the calculations may take the profile!

In the following example, the units are delivered in a known pattern / we have an expectation of how they will be delivered – see blue column.

But, we won't approve the expenditure (goods receipt it, after receiving information from the supplier) until the month afterwards.

The supplier is always late in charging the new price for the contract, which applies from November: they usually present an invoice for this separately in March.

So the actual profile we would put onto the general ledger (red) is very different to the base calculations (green).

The red profile would be calculated during budget prep, and then not revisited during the year. If variances arose these would be explained in the narrative accompanying the monthly service memo to members and senior officers rather than resulting in a reprofiling.

Month end Processes

| Delivery month | GRN month | Units delivered | Due Price | BUDGET | Charged Price | Calc | Profile Month | Profile |
|---|---|---|---|---|---|---|---|---|
| April | May | 12 | 200 | 2400 | 200 | 0 | April | 0 |
| May | June | 13 | 200 | 2600 | 200 | 2400 | May | 2400 |
| June | July | 14 | 200 | 2800 | 200 | 2600 | June | 2600 |
| July | August | 15 | 200 | 3000 | 200 | 2800 | July | 2800 |
| August | September | 16 | 200 | 3200 | 200 | 3000 | August | 3000 |
| September | October | 17 | 200 | 3400 | 200 | 3200 | September | 3200 |
| October | November | 18 | 200 | 3600 | 200 | 3400 | October | 3400 |
| November | December | 12 | 220 | 2640 | 200 | 3600 | November | 3600 |
| December | January | 14 | 220 | 3080 | 200 | 2400 | December | 2400 |
| January | February | 20 | 220 | 4400 | 200 | 2800 | January | 2800 |
| February | March | 10 | 220 | 2200 | 200 | 4000 | February | |
| | | | | | | 2200 | | |
| | | backdated inflation | | | | 920 | | |
| March | March | 9 | 220 | 1980 | 220 | 1980 | March | 9100 |
| | | 170 | | 35300 | | | | 35300 |

## Setting project budgets

Project budgets are usually set as works, plus fees, plus contingency: i.e. an estimate of the amount that the works / services will cost, plus any associated fees such as legal / project management fees, plus an allowance for problems.

When using project budgets to monitor expenditure, it is however important to remember to match costs between years so that the impact of projects from old years is taken off the total budget before new projects are started. And, it is important to ensure that only the controllable, variable, directly attributable project costs are included for monitoring: for grant purposes, or for reporting to external bodies it may be of interest to factor in the cost of the administration / management of the project, however when monitoring costs only directly attributable project costs are in reality costed to projects.

**Reasons why problems emerge**

If an adequate budget is set, it is appropriately targeted (into project budgets) or delegated (into spending plans), and the profile on the general ledger is an accurate calculation of actual expenditure, then a budget should come in on target *as long as there are no inherent external pressures on the budget!*

**Non-problems – system failures**

All of the following are system failures rather than underlying causes of budget pressure.

- Poor target-setting: for example, unsustainable service targets, or inadequately costed ones

- Poor delegation of targets: too much delegated too soon to too many officers, or more than the total pot delegated, or lack of subsequent control applied such that individual schemes all over-spend

- Poor service delivery control: lack of management control on checking that only planned services are delivered, that adequate rather than over-generous packages are provided, that service standards are implemented by all members of staff etc

- Poor administrative systems: good service control being let down by poor administrative control such that flawed / unapproved invoices are paid, variations in price aren't followed through, and poor yearend procedures cloud the in-year financial control

- Poor profile setting: lack of technical skill lets down good service target setting by failing to follow it through and present the information in the right way to the general ledger, thus leading to failure to report the real position early in the year which may lead to release of more schemes / service targets which are actually unaffordable.

**Real problems – inherent budget pressures**
Below are the most common problems that can arise in a budget, in order of complexity.

One-off item
Examples:
- Large item of specialist equipment bought – one of a kind
- Staff advert
- Income from sales which are opportunistic and may not occur again

Change of staff make-up
Examples:
- Management band progression
- APT&C payscale progression
- Trainees
- Staff turnover
- Full time staff going part time

Growing / falling number of units of provision
Examples
- Increased demographic demand for service
- Increased deprivation indices creating higher demand for service
- KPI (Key Performance Indicator) or Best Value target encourages increased provision
- Service provision elsewhere reducing demand for service
- Lack of service provision elsewhere increasing demand for service

Inflation
Inflation is used to describe many different ills, but it is one thing only: the increase in cost over a previous measured period of doing *exactly the same thing and providing exactly the same output*. Anything else is a change in the nature of what is done.
Inflation can cause a problem because the budget includes an assumption for inflation, but sometimes costs rise faster than they were expected to.

Growing expense of provision
If costs are increasing, and this is not due to inflation, then management action may be required to do more than calculate the increased cost: inefficiencies may be coming into the process. However, the increased cost may be resulting in higher quality and the achievement of better standards of care which are desirable and represent the achievement of specific performance targets.

Change in pattern of provision / change in provision model
The impact on a service of a change in provision is very difficult to predict.
Examples might be:
- Enhancing subsidies for public transport
- Spending more time on supporting children earlier in their lives
- Supporting youth offenders in a different way
- Employing a different balance of professional and non-professional carers

Clearly the change will have been made because it is anticipated that the outcome will be a more positive future for the client. But, how that impacts on service provision costs, and how successful the initiative will be are unknowables.

**Gathering Information**

**Management Information**

Management Information is numerical or statistical data that offers an explanation of why financial costs or income are tending to rise or fall, it can be: future costs, units provided, trend analysis. It is a different thing to "information which management have", which might be knowledge that the quality provided by a supplier will fall in future and therefore a tender is required. This information also helps manage budgets, but not in the same way as management information.

The data used to prepare the management information should be:
- Rigorously collected
- Captured at an appropriate time and in an appropriate format
- Accurate and reliable
- Independently verified where provided by a third party
- Captured on a consistent basis

All the following are examples of basic data needed to prepare management information:
- Units of service / goods supplied i.e.
  - sold 5 units
  - issued 10 units to service users
  - bought 20 units of service provision
- Price of units
  - paid £30 per unit
  - paid £100 for unlimited supply of good
  - paid £20.25 for first 10, then £20 for rest
  - paid £21 but they undercharged and should have paid £25
- Quantity provided
  - paid for one month's supply
  - paid for 30 days supply
  - bought 5 computers
  - delivered one day's training
- Recurrence:
  - commitment has been made to go on buying 2 units a week until the end of the financial year, and ad infinitum,
  - this was a one-off
  - commitment has been made to do this to December, by which time we'll have re-tendered
- Where:
  - Service was delivered within District X which is important for statistics we have to report
  - Service was delivered at point Z which means it cost us more
- When:
  - Service was delivered at 5am, meaning it cost twice as much as normal

- o Goods were delivered past 5pm in the evening so supplier is not due prompt delivery discount

**Reconciling Management Information**

The basic aim of reconciliation is to use the management information to unpack the bare financial information, in such a way as to ensure that the management information is checked for completeness. The prime source is the financial information: the management information should be adjusted for the truth of the financial information because the latter is what is reported to members and the outside world and it is the prime financial record.

In undertaking a reconciliation the focus should be on:
- Acting on material errors only: do not refer changes on orders for amounts under £30 to Purchasing Support (Procure to Pay group) where the GRN and order differ. Just ensure that the invoice when passed is noted as full payment and the difference will disappear.
- To reconcile the transaction listing for variable, seasonal and service related items only to local management information: keeping a separate management information sheet for stationery (for example) focuses attention needlessly away from real areas of concern.

In order to ensure a reconciliation can be undertaken:
- Keep management information in the right plane: there's no point keeping columns of management information where the totalling never comes back to an invoice value, as it makes reconciliation with financial data impossible.
- Highlight or clearly identify amounts in the management information which ought to match to the financial information for easier checking
- Use a key: enter meaningful information on the requisition and the GRN such that the person reconciling the data has a chance of making a link back to the management information
- Put self-correcting checks into the management information so that you don't waste time making the financial data match to something that isn't right. Some tips here are:
  - o Use subtotals which include a blank narrow row above the sum and sum the lines including the blank row
  - o Use error traps – sums which say "if the total of the columns' subtotals doesn't match the total of the rows' subtotals, say ERROR here"
  - o Keep management information in lists of years rather than months – the invoice may not be paid in the same month as you keep the data and it saves time splitting it over different worksheets
  - o Always have a section at the top to add in previous year adjustments for closedown journalled amounts which did not match the real invoice
  - o *Financial advisers are good at spreadsheets – ask them for help*

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**Acting on errors found during reconciliations**

**AP invoice miscoded: management information shows that the cost has been attributed to the wrong code / project**
If wrong code, do a journal in GL, if wrong project, do a project journal.

**SSP order miscoded: management information shows that the order has been setup on the wrong code**
Instruct Procure to Pay to close the line and transfer cost to a new line with the right code / project.

**Payroll cost miscoded: management information shows that a byclaim has been attributed to the wrong code**
Inform your HR adviser and financial adviser, *do not do a GL journal*, the cost will be recoded by your HR adviser. The information must be with the payroll provider by the 6$^{th}$ of the month.

**Cost has gone into wrong financial year, i.e. a bill for the old year has been paid in the new year with no accrual having been made**
Adjust the management information to show no service units provided, but an increased cost of the unmatched accrual: this cost exists and will have to be shown in all unit costing / expenditure reporting for this financial year so the management information has to be adjusted.

**Management information shows a cost that financial information does not**
First check if it's a timing difference: does the cost appear in the next month? If not, check AP to see where the cost was actually paid from – use the invoice number and supplier to search.

**Financial information shows a cost that management information does not**
Review the cost in detail: if it is a cost that is missing from the management information, enter it, if it has been miscoded, then depending on whether it has been paid or is an order cost, act to get it recoded.

**Financial information is inconsistent with management information**
For example, the amount paid does not match the amount expected when unit cost is multiplied by units provided. This needs further investigation: a simple adjustment is not appropriate as, particularly if there is more than one instance, this could be a sign of an underlying problem.

**eBusiness Suite Reports**

At the time of writing this manual there are 3 different ways to access reports from the eBusiness Suite:

1. Reports Access Project
2. Emails sent from a financial adviser / finance unit
3. Running reports yourself using one of ADI, Discoverer or the core system

During 2006, it is expected that more and more users will move from methods 3 and 2 to 1 as more reports become available in the new format. This manual therefore covers only methods 1 and 3.

Although the different methods of running reports provide reports that look different, and sometimes contain slightly different information, they are intended to prompt the same actions / thought processes, and budget holders / their administrators should be making the same checks as a results of them all.

**General Ledger Transaction Report**

The purpose of this report is to show you all the entries that have been made as accruals / actuals on your range of codes in the General Ledger. It will therefore include all postings from sub-ledgers, and all General Ledger journals.

In reviewing this report the aim is to identify:
- GRNs and certified invoices which have not been entered / approved locally
- Journals done in error against your code or without appropriate authorisation
- Miscodes arising from AR invoices or SSP orders being placed on the wrong accounting code

The report will usually form the starting point for reconciliation with local management information.

It is important to note that this report shows **only** accrued and actual entries, it does not show commitments (i.e. open purchase orders), and when reviewing budgetary control variances, which do include these committed amounts, this needs to be taken into account.

**Prompt payment report**

The purpose of reviewing this list is to check:
- That performance is better than 95% of invoices paid within 30 days

If the report is showing a constant poor performance – of between 50 and 95%, then it will require management time (often a significant amount of it) to rectify the situation. Areas that should be considered in rectifying this situation are:
- Who is late ordering goods in your team (slowing up invoice processing)
- Who is late to GRN goods in your team (slowing up and sometimes confusing invoice processing)
- Which invoices are being received and processed locally, and why

- Which suppliers' invoices are already old when they reach us – where have delays occurred?

**Payroll transaction report**

Since the introduction of the Oracle payroll system, all postings to the general ledger from the payroll system are made at a summary rather than detail level. To interrogate the detail of the payroll costs requires the payroll transaction report.

The checks undertaken on this report (usually by the Budget holder, due to the need for discretion over payroll costs) should be sufficient to ensure:

- Only bona fide employees are being paid for
- All budgeted employees are being paid for
- Leavers and starters pay has been correctly actioned
- Part-time and split-coded employees are correctly apportioned between cost centres
- The right salary is being paid to each employee
- NI and employer's pension contributions are being appropriately deducted for the employee
- Mileage and expenses payments are being accurately paid

**Budgetary Control report**

This is a "position" report, showing a snapshot in time at the end of the month and comparing it to predictions for that period of time made during the previous year's budget preparation. Differences between committed & actual spend to date and profile are called variances, and what is required when reviewing the budgetary control report is usually called "variance analysis".

The focus of variance analysis is to identify and act on the following 4 types of variance of actual spend / income from profile:

| 1 | Over-spend |
| 2 | Under-spend |
| 3 | Over-recovery |
| 4 | Under-recovery |

| | Item | Budget for year | Profile to date | Actual to date | En-cumbrance | Variance | |
|---|---|---|---|---|---|---|---|
| ① | Salaries | 250,120 | 62,530 | 63,120 | 1,000 | 590Dr | Over-Spend |
| ②. | Office goods | 12,000 | 3,000 | 1,253 | 125 | 1,747Cr | Under-Spend |
| ③ | Income from sales | -18,000 | -15,000 | -16,150 | 0 | 1,150 Cr | Over-recovery |
| ④ | Grant income | -24,000 | -6,000 | 0 | 0 | 6,000 Dr | Under-recovery |
| | | | | | | 3,693Dr | |

② and ③ are GOOD: the budget holder has either spent less or got in more income than expected at this stage in the year. They are both credits (minuses) even though expenditure is expressed as a debit / plus and income as a credit / minus.

①and ④ are BAD: the budget holder has either had to spend more, or got less income in than expected at this stage in the year.

The purpose of the other reports is then to explain in detail why those variances have arisen and spot areas for management action to bring about a return to planned budget.

**Debt summary report**

The purpose of reviewing this report is to check that you are aware of all of your outstanding debt, and can reconcile it to the emails you will have received from the Debt Management team relating to outstanding debt. Where debt has not yet reached the second letter stage, you should check the invoices to ensure that they were correctly issued, with all the right information, and that the customer address is right. If any details relating to the invoice are wrong then this should be communicated immediately to the Debt Management Team. This report does NOT replace the Discoverer aged debt report.

**Capital Transaction Report**

This report is intended to be used to compare to information in the projects module. It should be possible to reconcile the expenditure on individual projects of a particular type (sharing a project group code) in a given period with the total expenditure on that same project group code in the General Ledger.

**Personal Accounts Report**

This report shows movements on balance sheet accounts other than capital accounts – for example, if an Imprest account had been closed, then there would be an entry showing the return of the float to the Procure to Pay team, or if a payment had been made from an account belonging to a client leaving care, then the amount of the payment would show on the report.

**Open Purchase Order Report**

This report is intended to highlight orders where a commitment is still showing in the General Ledger, and is therefore being included in all variance analysis and forecast outturn reporting.However,in reality the order may no longer be required, or may have been paid on a different order or via certification slip. The action that should take place is to review the list to ensure that all orders are still required, and if not use the forms on the intranet to make the required changes to the orders via the Procure to Pay team.

**Using reports on the new Reports Access Portal**

Using reports on the Reports Access website is intended to be intuitive, and easy for end users.
You will access the site using an icon on your desktop which points you to a webpage on the council's intranet.

The website "recognises" you from your network user ID and needs no separate login facility, but, your accesses and privileges regarding the content of reports are controlled through your Oracle userid and permissions. So for example when running a budgetary control report it will show you all the cost centres which you may see with all your different general ledger responsibilities.

During 2005 and 2006 reports will be phased in, removing the need for emailed reports to be sent and for users to run some of their own reports. The anticipated order of release of reports is as follows:

      General Ledger transaction listing      May 2005
      Prompt Payment Report
      Payroll Transaction Report
      Budgetary Control Report
      Debt Summary Report
      Capital Transaction Report
      Personal Accounts Report
      Open Purchase Order Report

The reports differ from those delivered on-line or using ADI / Discoverer in that they are static snapshots rather than up to date views of the data. The reports are produced using data extracted from the main databases on the last day of the financial month, and are then kept warehoused in a separate place that the reports access website "sees" into. Transactional data will be held for 24 months in this way, so reports can be re-produced.

**Using the Reports Access solution**

You will be emailed the link:

Reports Access
UAT.url

The webpage will look like this (during 2005/06 the site will be under development, responding to user feedback, and is subject to change)



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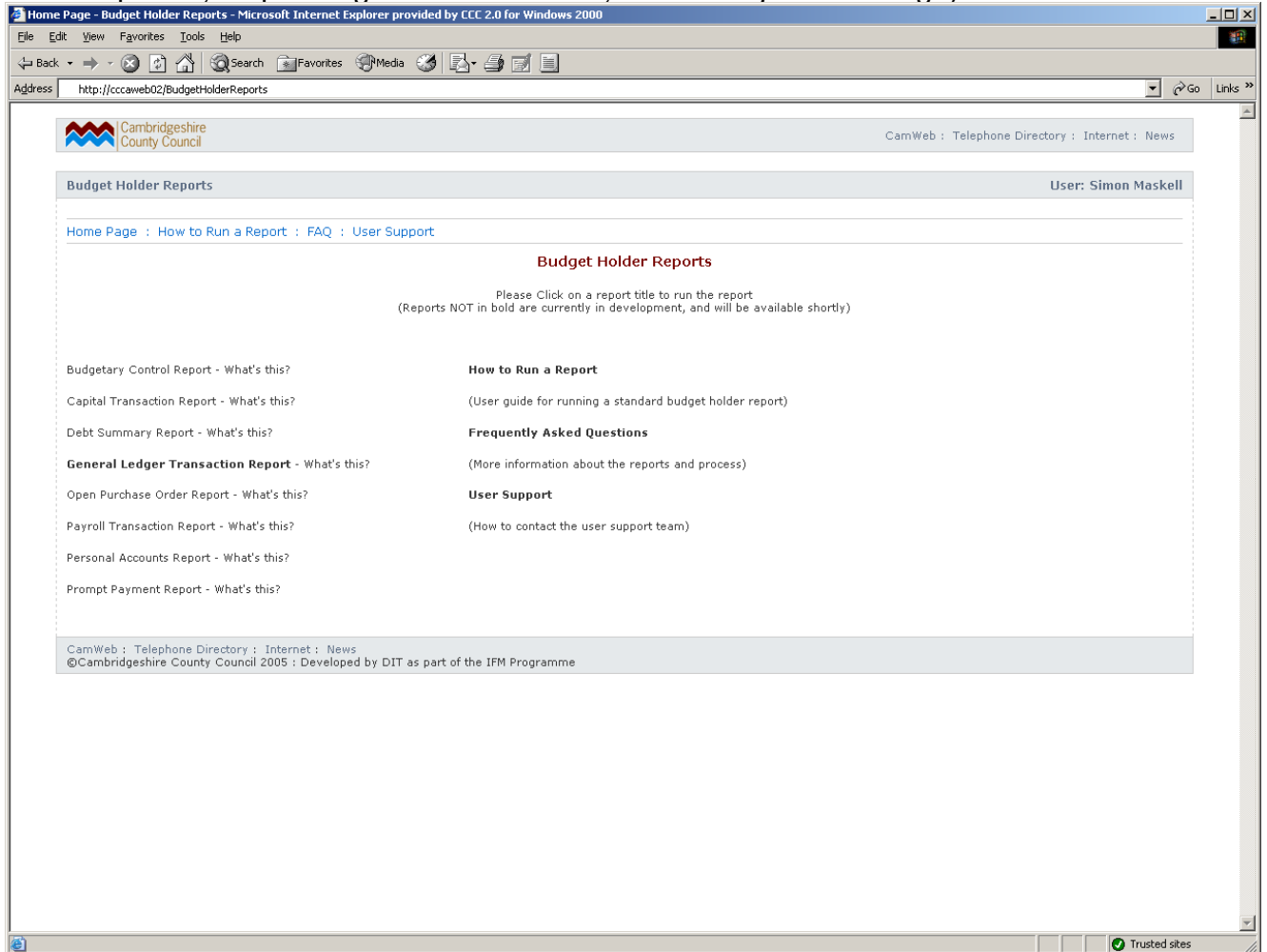
The selection screen for the GL transaction report looks like this:
(again, subject to change after user feedback)



The options provided are:
Display or hide data to fit to screen

- Various fields can be hidden / shown as the user wishes

Select ranges or certain types of data to display

- A Number of options – wildcard search, single values, and types of data, are provided so that users can isolate the data they require

Change order data appears on screen

- The data can be reordered by different parts of the cost code

Extract data

- A one-step print or extract to excel facility is provided

**Reports sent via email**

Reports sent on an email will come from:

- Your financial adviser, or;

- An OCS Finance and Performance Team, or;

Month end Processes

- A processing team such as Procure to Pay or Debt Management.

The email will contain text highlighting the actions you or the budget holder is expected to take as a result of receiving the report, and an attachment.

To read the attachment (which will contain the report), double click the icon on the email

When you double-click the icon, you may be asked to enter a password:
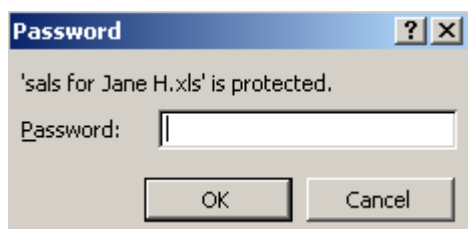


you should enter the password you will have been sent by your financial adviser / the sender of the email.

When the password is accepted, Excel will automatically load (in some cases reports might be sent in Word but this is rare).

When the report loads, you will find that there are a number of different subtotalling options to choose from



By clicking on the minus and plus buttons in the grey subtotalling area you can show / hide different levels of detail. To show / hide the detail you select the minus and change it to a plus:
In this report the levels are as follows:
Level 1 (the first column), grand total for the report.
Level 2 – subtotal at cost centre
Level 3 – subtotal at objective within cost centre
Level 4 – subtotal by subjective

To remove the subtotalling, if for example you wanted to sort the data in a different way,
Highlight all the data, select from the main menu Data, Subtotals. Then, at the following popup box, select Remove All.
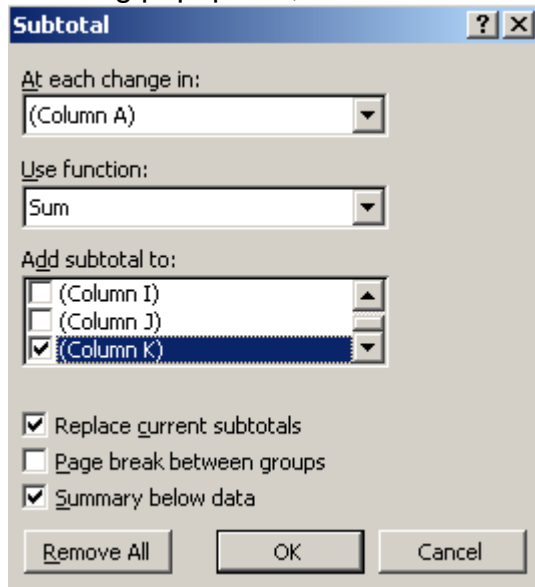
If any subtotals remain, use the Edit, Delete, Rows function to remove them completely.

### Reviewing the data

The data provided to you in GL reports and on-line in the GL is shortened: it is intended to provide a "key" only to unlock more information in the sub-ledgers if required.

Any integrated system works this way and it is one of its efficiencies in terms of data handling: only move header level information between modules, and instead provide drill-down paths for the most common types of enquiry for one module to "drill-back" to another module when required.

However there is some data which originates or is only kept in the GL (budgets, profiles, virements, journals, recharges etc) and this should require no further drill-down or explanation for you to understand the transaction.

This section is about how to access the data on-line, find the right "key" to drill-down to other modules when you need to, and how to "read" the data that belongs to the GL alone.

### Understanding what you are seeing:

When you perform an actual enquiry in the General Ledger, what you are shown are five different types of entry:

- Cash payments made via certification slip – only shown when the invoice has actually been paid

- Purchase card payments– shown a month in arrears

- Imprest account payments- only shown after an imprest claim is made

- Journal entries representing accounting adjustments and internal charges and recharges

- Receipts from Self Service Purchasing that recognise the *accrued* cost of goods and services received to date.

It cannot be said too many times that:

- An eBusiness Suite order is shown against the budget holder's account:
    - As a commitment (encumbrance) before it is receipted
    - As an accrual when it is receipted

***There is no further entry or adjustment when the real paper invoice is processed through the Procure to Pay unit.***

| Lease Cars | AF255 260903 IntRech 1 GBP | BLOGGS J -Y123 ABC. W Heels x3888 | Spreadsheet | Actual | Note 1 | |
|---|---|---|---|---|---|---|
| Invoice (Certification Slip) | QCA ENTERPRISES LTD | P2P091712 5062181 QCA | Accounts Payable | Actual | Note 8 | Y |
| SSP | CJE: Purchases GBP 1001 User 1 | ENVELOPES, SELF SEAL, WITHOUT WINDOW, MANILLA, size C4, pocket, box of 250 | Purchasing | Encumbrance | | |
| Agency Charging System | AE289 010405 IntRech 8 GBP | EP 212292G CB10 - Room Hire at CPDC - BookRef 5983-Cancelled.100% Ch. Ms F Dryden 01480 222844 | Spreadsheet | Actual | Note 2 | |
| SSP | Receiving GBP | Exchange CAL | Purchasing | Actual | Note 3 | Y |
| Internal Invoices | AE266 010405 IntInv 4 GBP | TG49605 HIRE OF MTG RM 18/6/03. H Ypres x8222 | Spreadsheet | Actual | Note 2 | |
| Journal Transfers | AF255 060405 CodeCorr 5 GBP | ENVELOPES, SELF SEAL, WITHOUT WINDOW, MANILLA, size C4, pocket, box of 250 | Spreadsheet | Actual | Note 4 | |
| Internal Charges | AF211 250405 IntRech 4 | March telephone calls. D Day x3778. | Spreadsheet | Actual | Note 1 | |
| Purchase Card | AI302 080605 Procure to Pay GBP | C Boggins - Purchase card statement date 05/06/05 | Spreadsheet | Actual | Note 5 | |
| Payroll transaction | Payroll GBP Corporate 23-APR-04 | Journal Import 1010365: | Payroll | Actual | Y | |
| Imprest Accounts | Student Support Centre Imprest | P2P428132 | Accounts Payable | Actual, Note 8 | Note 7 | Y |
| Accounts Receivable Invoice | AR 13796 Receivables 1539233: A 13796 | Termly charge for training. | Accounts Receivable | Actual | Note 6 | Y |

## Notes:

1. Actual cash payments will have been made; this charge represents your portion of the cost. Often these bills are large contracts and the payments are authorised by the contract officer. If you need to query it, ring the phone number usually shown in the journal line description.

2. These are charges made by one part of the Council to another; either as a result of an agreement or an individual order between parts of the Council.

3. A receipt entry is all the "actual" cost you will ever see in your account code range for an invoice paid through the eBusiness Suite. The receipt of an item will cause your account code range to be debited with the cost.

4. Journal transfers can be done for almost any reason, usually correcting coding errors. In that case, the primary entry may have been for actual cash

5. The total for each purchase card each month is debited from the default code: if budget holders require further recoding this must be done locally.

6. Debt invoices are posted to GL as "actuals" as soon as they are raised. This status is not changed when they are paid, but if they remain unpaid and have to be written-off the value of the invoice will be debited from the original account code.

7. All coding information on the Imprest claim is entered as a line for an AP invoice

8. An invoice reference number in the line description, starting P2P, identifies all invoices entered by Procure to Pay: this is for audit purposes. Further information about the invoice, and the supplier's invoice number is then entered after that reference, or can be found through drilldown back to the order information.