Study of certain accounting issues related to the Health Service Executive (HSE)
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Foreword

The Working Group would like to record its appreciation of those who met with it during the course of its deliberations.

In particular the Group would like to thank the Attorney General and his Office for the comprehensive response to the request for legal advice from the Department of Health and Children on the Group's behalf.

Finally, the Group would wish to acknowledge the outstanding contribution made to its work by the secretariat from the Department of Health and Children. The quality and consistency of the contribution made by David Moloney, Tony O'Reilly and Kieran Cashman was critical to our work at all stages.
Executive Summary
(INCLUDING RECOMMENDATIONS)

Background

1. The Working Group was established by the Minister for Health and Children, following a Government Decision of 23 October 2007, to study certain accounting issues related to the Health Service Executive (HSE). The primary focus of the report is the interaction between Vote Accounting and Income and Expenditure Accounting (accrual accounts) and in particular how that interaction can best be managed to maximise the value added for the HSE itself, the Government, Dáil Éireann, Government Departments and the Comptroller and Auditor General. The Group took appropriate steps to validate the constitutional and legal statements included in Chapters 1 and 4 of its Report. Terms of Reference of the Group and membership of the Group are set out in Appendices 1 and 2 respectively.

General Principles

2. A number of principles emerged during the course of the Group’s work that are reflected in its Report. These are:
   
   • the need for clarity in relation to the constitutional, parliamentary, legal and administrative framework as it pertains to the HSE;
   
   • the need for clarity in relation to responsibility and accountability both within the HSE itself and in relation to its external relationships;
   
   • the need to view the statutory requirement for the HSE to produce Annual Financial Statements and an Appropriation Account in the wider context of the granting of supply by Dáil Éireann and the requirement to account to the Dáil for that money;
   
   • the need to view the HSE Appropriation Account and the Annual Financial Statements as complementary documents designed to provide comprehensive financial information on its activities; and
   
   • the need to maximise the value added from the production of both Annual Financial Statements and an Appropriation Account by minimising the difficulty of relating one set of accounts to the other.
Constitutional, Parliamentary, Legal and Administrative framework

3. The Report describes the agreed constitutional, parliamentary, legal and administrative framework for financial reporting and public expenditure management as it pertains to the HSE [1.4–1.33]. This includes an outline of the specific legal requirements for the HSE to produce both an Appropriation Account and Annual Financial Statements on an accruals basis [1.15–1.18]. The Report also describes the agreed respective roles and responsibilities of the HSE Board [1.39–1.41 and 6.14–6.16], the Chief Executive Officer (CEO) of the HSE [1.42–1.45], Accounting Officers [1.46–1.57], the Minister for Health and Children [1.34–1.38], the Minister of Finance [1.19–1.31], the Comptroller and Auditor General (C&AG) [1.61] and the Oireachtas [1.62–1.65 and 4.2–4.6].

The Role of Accounting Officer

4. The role of Accounting Officer has its origins in the Exchequer and Audit Departments Act, 1866. Section 22 of that Act provides for the preparation of Appropriation Accounts by Departments. The term “Department” when used in connection with the duty of Departments of preparing the Appropriation Accounts, was to be “construed as including any public officer or officers to whom that duty shall be assigned by the [UK] Treasury”. The term Accounting Officer was not defined in Irish legislation until the enactment of the Comptroller and Auditor General (Amendment) Act, 1993. The Accounting Officer is defined in that Act as the “Officer referred to in Section 22 of the Exchequer and Audit Departments Act, 1866 to whom the duty of preparing the Appropriation Accounts of a Department is assigned…”[4.18]

5. Every Accounting Officer is accountable for the money voted to him or her from the time that money is issued from the Exchequer until it is issued to an organisation over which he or she does not exercise direct control. Indeed the responsibilities of Accounting Officers extend beyond their own organisations, where their Vote includes a grant-in-aid. In such circumstances the Accounting Officer is required under the Public Financial Procedures to be satisfied that the accounting system and organisational arrangements of the grantee are adequate to ensure the proper administration of the money and arrange that accounts will be submitted for audit without delay after the end of the financial year. The Statutory requirement for the HSE to prepare Annual Financial Statements, on an Income and Expenditure basis in such form and in accordance with accounting standards specified by the Minister for Health and Children (Section 36) does not in any way limit the extent of the Accounting Officers responsibility. It is a parallel requirement to produce accounts on a different basis, on an Income and Expenditure basis, and this parallel requirement is discharged through reliance on the same systems of financial and administrative controls that underpin the Appropriation Account. [4.19 and 4.24]
Impact of recent legislation on the Constitutional and Legal framework relevant to the HSE

6. The Irish legal structure has evolved over the years since the establishment of the State, with the enactment of new legislation governing the role of the Comptroller and Auditor General in 1993, new legislation clarifying the role of Secretary General (the Public Services Management Act, 1997), and legislation establishing new bodies such as the Irish Court Service and the HSE, just to take two examples. The legislation establishing the Irish Courts Service and the HSE specified in each case that the CEO was to be the Accounting Officer. In theory, the Minister for Finance can appoint a person other than the CEO/Secretary General to be Accounting Officer in situations where such a provision does not exist but in practice this does not occur. Otherwise, there is no difference between the role and responsibilities of Accounting Officers in general and the role and responsibilities of the Accounting Officers for the Irish Court Service and the HSE. The fact that as CEOs they report to a Board while Secretaries General report to a Minister does not impact on their roles and responsibilities other than in the event of a clash between their dual roles. Were that to occur the issue would involve a Minister in the case of a Secretary General and a Board in the case of the CEO i.e. their direct reports in each case. [4.7]

7. The new legislation expanded the role of the Comptroller and Auditor General, clarified the role of Secretary General and in the case of the Irish Court Services and the HSE carved out functions previously discharged by the parent Government Department and assigned them to a body established by an Act of the Oireachtas. It is also important to be clear in regard to what remained unchanged following the enactment of the new legislation. In particular it is important to recognise that the roles of Ministers, Government and the Oireachtas in relation to the public services and the public finances remained unchanged as a result of the new legislation. All Accounting Officers remain subject to the Exchequer and Audit Departments Act, 1866 and the Public Financial Procedures. The role and responsibilities of Accounting Officers are set out in two Department of Finance documents, The Public Financial Procedures and The Role and Responsibilities of Accounting Officers. [4.8]

8. The Health Act, 2004 provided for the establishment of the HSE, with its own Board, and CEO. It also provided that the CEO is the Accounting Officer in relation to the Appropriation Accounts of the HSE for the purposes of the Comptroller and Auditor General Acts, 1866 to 1998. The Health Act, 2004 also includes provisions in relation to the roles of the Minister for Health and Children, the Minister for Finance, the governance of the HSE, the CEO and the financial reporting arrangements. These provisions together provide the statutory basis for the dual role of the CEO as Accounting Officer and CEO. However, the CEO is appointed as Accounting Officer by the Minister for Finance under the provisions of the Exchequer and Audit Departments Act, 1866 and he is therefore subject to the provisions of the Public Financial Procedures and the Department of Finance Memorandum, The Role and Responsibilities of Accounting Officers. [4.9]
Dual Role of Accounting Officer and CEO of the HSE

9. Since the enactment of the Public Service Management Act, 1997 and legislation such as that establishing the Irish Court Service and the HSE, the dual role of Accounting Officer and Secretary General or Chief Executive has become more transparent. However, this dual role has existed in exactly the same way since the foundation of the State. The Public Service Management Act, 1997 simply clarified the role of the Secretary General and his/her relationship with the Minister. It did not reduce the power of the Minister in any way. Neither did the establishment of the HSE reduce the power of the Minister for Health and Children. It did, however, transfer to the HSE functions that had previously been carried out directly by the Department of Health and Children through the Health Boards and Eastern Regional Health Authority (ERHA) and made provision for the governance that was to operate after this transfer e.g. Board, CEO, Corporate Plans, Service Plans, reporting requirements etc. [4.10]

10. Under Section 18 of the Health Act, 2004, the CEO of the HSE is responsible for carrying on, managing and controlling generally the administration and business of the HSE. He is responsible to the Board of the HSE for the performance of his functions and he is also accountable in regard to administration of the Executive to the Oireachtas (Section 21 of the Health Act, 2004 refers). Under Section 12 of that Act, the Board is the governing body of the HSE and it may delegate any of its functions to the CEO. [1.68]

11. All Accounting Officers are personally responsible for the safeguarding of public funds and property under their control; for the regularity and propriety of all the transactions in each Appropriation Account bearing his or her signature; and for the efficiency and economy of administration in his or her Department. An Accounting Officer is statutorily independent in the performance of his or her duties and is answerable in that regard to the PAC. However, this independence is limited by Section 19(2) of the Comptroller and Auditor General (Amendment) Act, 1993, which prohibits an Accounting Officer from commenting on Ministerial and Government policy. [1.69]

12. The fact that an Accounting Officer is also a CEO or a Secretary General does not create any independent right to apply resources, given that in relation to policy matters the Secretary General is responsible to his or her Minister and that the CEO’s line of responsibility is to the board of the relevant organisation. Above all, there is no case for arguing that any Accounting Officer, in his or her own right, has the power to apply resources voted by the Dáil in a manner other than in accordance with the basis approved by his or her Minister. This is the position for all Accounting Officers including the Accounting Officer for the HSE Vote. [1.70]
Difference of opinion between Accounting Officers and Board of the HSE

13. If, in relation to an area for which the Accounting Officer has a responsibility (e.g. the propriety of a payment or the treatment of a receipt), a difference of opinion arises between an Accounting Officer and the Minister responsible for the service, the Accounting Officer should inform the Minister in writing of his or her view and of the reason for it and suggest a consultation with the Department of Finance. If, notwithstanding this, the Minister gives contrary directions in writing, the Accounting Officer should comply with them after informing the Department of Finance. The papers should be sent to the Comptroller and Auditor General when the directions have been carried out. [1.58]

14. In the case of the HSE, if such a difference of opinion were to arise between the Accounting Officer for the HSE Vote and the Board of the HSE, the Accounting Officer should satisfy himself that the issue was not one of policy [given the prohibition on questioning policy in Section 19(2) of the Comptroller and Auditor General (Amendment) Act, 1993] and if not inform the Chairman of the Board in writing of his or her view and of the reason for it and suggest a consultation with the Departments of Health and Children and Finance. If, notwithstanding this, the Chairman of the Board gives contrary instructions in writing the Accounting Officer should comply after notifying the Department of Health and Children and the Department of Finance, and copy the papers to the Comptroller and Auditor General when the directions have been carried out. It is essential that a clear framework exists (whether administratively or legislatively or both) within which proper control and accountability mechanisms are working to ensure that public money is used effectively and in accordance with the terms and conditions with which it was granted, that it is accounted for properly and that reporting to the responsible Ministers and to the Oireachtas is timely, accurate, relevant and comprehensive. [1.59 – 1.60]

Degree of overlap between the roles of the Accounting Officer and CEO

15. It is clear that there is some degree of overlap between the duties and responsibilities of the Accounting Officer for the HSE and the duties and responsibilities of the CEO of the HSE, both roles discharged by the same person. This is particularly true of the financial role. Not alone are many of the same figures used in both the Appropriation Accounts (including notes to the accounts) and in the Annual Financial Statements but both rely on the systems of financial and administrative controls to provide the necessary degree of assurance in relation to the quality of the accounts. This does not mean there is an exact parallel. For example, the Accounting Officer alone is responsible for ensuring that the Appropriation Account is prepared. S/he alone is responsible for signing the Account and for giving evidence before the PAC in relation to it. [4.28]
Accountability extends from receipt of Exchequer money to at least the point where that money is no longer under the control of the HSE

16. The responsibilities of the Accounting Officer in relation to the Appropriation Accounts start with the receipt of money from the Exchequer and run to the point where that money leaves the control of the HSE and to some extent beyond in the case of grants. The same is true of the parallel responsibility of the CEO for the Annual Financial Statements. The Chairperson of the HSE illustrated the close parallel between the Appropriation Accounts and the Annual Financial Statements when in the course of his Statement on the System of Internal Financial Control in the 2007 Annual Report, he set out the basis for his statement as follows:-

“Basis for Statement
I as Chairperson of the Board of the HSE make this statement in accordance with the Department of Finance’s Code of Practice for the Governance of State Bodies, 2001. In making this Statement on the System of Internal Financial Control the Board has relied on the Statement made by the CEO as Accounting Officer in the 2007 Appropriation Account” [4.29]

Appropriation Account and Annual Financial Statements

17. The Report describes the Appropriation Account for the HSE Vote 40 [Chapter 2] and the Annual Financial Statements of the HSE [Chapter 3] The report notes that it is not unusual for Vote holders to produce accruals based accounting information. One of the standard notes to Appropriation Accounts is an Operating Cost Statement. An Operating Cost Statement shows, on an accruals basis, the total amount of resources consumed by a Department/Office in the year. It provides an operating cost figure by a series of adjustments to the cash-based outturn figure produced by the Appropriation Account. The notes to the Appropriation Account also include a Statement of Assets and Liabilities, together with explanatory notes on (i) Capital Assets, (ii) Capital Assets under Development and (iii) Net Liability to the Exchequer.[2.4]

18. The Report also notes that on both the revenue and capital accounts the income side of the Annual Financial Statements of the HSE is largely reflective of the money voted by the Oireachtas, through Vote 40 for the HSE. On the expenditure sides the impact of using the accruals basis is reflected in negative balances in the Income and Expenditure Accounts and negative Revenue and Capital reserves in the balance sheet. However, these negative balances and reserves do not represent normal operating surpluses or deficits, as they are largely attributable to the difference between accruals expenditure and cash based funding. Allowing for scale, all Departments / Offices operating through a Vote would have these negative balances if they were required to produce Income and Expenditure Accounts and balance sheets on an accruals basis. [3.31]
Conclusions

19. The main conclusions of the Group are included in Chapter 6 [6.2 – 6.28]

20. Chapter 1 represents the agreed position in relation to the constitutional, parliamentary, legal and administrative framework for financial reporting and public expenditure management as it pertains to the Health Service Executive (HSE). Chapter 4 represents the agreed position regarding the legal and reporting relationship between the HSE, the Ministers for Health and Children and Finance, the Government, the Oireachtas and how the existing reporting system supports these relationships. The Group took appropriate steps to validate the constitutional and legal statements included in these two chapters.

21. Section 31 (12) of the Health Act, 2004 provides that the HSE shall submit to the Minister, with the service plan, a statement of income and expenditure which must be consistent with Vote 40 but the act does not specify any particular form of account and is silent regarding whether cash or accruals are to be used. Neither does the act provide guidance regarding the meaning of “consistent” in this case. However, the Minister for Health and Children has specified under Section 36 (2) of the Health Act, 2004 the accounting standards to be used when preparing the Annual Financial Statements of the HSE. Section 10 of the same Act allows the Minister specify the form of the Estimated Income and Expenditure Statement required by section 31 (12). In the absence of such a specification, the onus is on the HSE to justify not using the accounting standards specified by the Minister under Section 36 (2) when preparing the estimate of income and expenditure required by Section 31 (12). [6.17]

22. More generally, the Group agree that Vote 40 and the statutory requirement for the HSE and the CEO/Accounting Officer to produce both Annual Financial Statements and an Appropriation Account has to be seen in the wider context of the granting of supply by Dáil Éireann and the need to account to the Dáil for that money. The framework of accountability to the Dáil is well established by legislation and practice. In the case of the HSE this framework also includes the HSE Corporate Plan produced under sections 28 – 30 of the Health Act, 2004 and the Annual Service Plan produced under section 31 of the same Act. Accounts are audited by the Comptroller and Auditor General and he reports to the Dáil Committee of Public Accounts (PAC), which in turn reports to the full Dáil. It is necessary to be conscious that the PAC and the Dáil primarily operate within a Vote accounting structure and therefore there is a need to minimise the difficulty in relating one set of accounts to the other. This requirement also exists in the case of the Ministers and Departments of Health and Children and Finance. [6.18]

23. The principle of relating the Appropriation Account for Vote 40 to the Annual Financial Statements of the HSE is well established by the HSE itself. For example, in the Statement on the System of Internal Financial Control in the 2007 Annual Report of the HSE, the Chairman of the HSE points to the fact that the HSE Board has relied on the statement made by the CEO as Accounting Officer in the 2007 Appropriation Account. [6.19]
Relating the Appropriation Account to the Annual Financial Statements

24. On the question of relating one set of accounts to the other the Working Group concluded:

- there is a need to ensure that the dual responsibility of the HSE to report on a Vote Accounting basis is appropriately reflected in the HSE management structure and in the HSE financial accounting system;

- there is a need to minimise the risk that having two sets of accounts could create confusion for readers seeking to understand the financial performance of the HSE through relating information from one set of accounts to information obtained from the other set of accounts;

- the accounting systems inherited by the HSE are no longer fit for purpose, in that they were not designed to cater for the current HSE structure or for a system requiring reports both on a Vote accounting basis and on an accruals basis and it is unable to provide the full range of management information now required or to support the outline Vote structure attached as Appendix 41 to Vote 40 in the 2008 Revised Estimates Volume;

- information required to determine the cost of maintaining the existing level of services and to more effectively monitor the Vote could be further developed;

- the Board of the HSE has a responsibility to provide new services for which the Dáil has made specific provision in Vote 40; where there is a proposal to use such money for any other purpose, there is a responsibility on the HSE Board, the Department of Health and Children and the Department of Finance to bring this proposal to the attention of Ministers as early as possible in the year and while there is still time to adopt alternative solutions;

- there is a need for greater clarity regarding the element of HSE income and expenditure financed from other Votes, to allow for easier comparison between the Appropriation Account and the Annual Financial Statements;

- the separate information notes on creditors and accruals in the Appropriation Account and the Annual Financial Statements need to be reviewed with a view to making it easier to relate each to the other;

- there could be greater clarity regarding the deficits in the income and expenditure accounts and the accumulating negative reserves in the balance sheet;

- there is a need for the Estimated Statement of Income and Expenditure, required under Section 31 (12) of the Health Act, 2004, submitted to the Minister for Health and Children with the annual service plan to relate the total gross Vote to the key outputs included in the plan specified by care programme;

1 Reproduced as Appendix 7 of this Study.
• the Estimated Statement of Income and Expenditure, prepared under section 31 (12) of the Health Act, 2004, needs to provide information on opening and estimated closing creditors and accruals to provide a bridge between the Vote and expenditure on an accruals basis;

• the Estimated Statement of Income and Expenditure required under section 31 (12) of the Health Act, 2004 should include information to clarify income and expenditure from sources other than Vote 40, including from other Departments;

• the format of relevant sections of the financial information submitted with the service plan should be coherent with other constituent elements of the accountability framework for the health services. In particular, a programme categorisation of the previous year's estimated outturn and proposed expenditure (with any additional provision for new initiatives clearly identified) should be supplied. This categorisation should facilitate alignment with the outline Vote structure in the Revised Estimates Volume for 2008 (including any revisions to same), the Annual Output Statement for the Health Group of Votes and relevant sections of the HSE Annual Report and Corporate Plan; and

• to provide the necessary clarity, the format of the Estimated Income and Expenditure Statement, including the requirements outlined above, should be specified to the HSE by the Minister for Health and Children under Section 10 of the Health Act, 2004 [6.20].

**Setting a Defined Expenditure Level for the HSE**

25. The Group considered the necessity or otherwise of setting a defined expenditure level for the HSE each year. In addressing this question the Group took into account the requirement in its Terms of Reference to bear in mind the requirement that cash accounting takes precedence for Exchequer management and control purposes and the views of the Departments of Health and Children and Finance, the Comptroller and Auditor General and the budget and accounting systems operating in the HSE. [6.21]

26. Up to this point, the setting of a defined expenditure level has applied only to non-Vote holders such as the old Health Boards and now to the voluntary hospitals and other agencies. Given that the Dáil operates a cash accounting system when it votes money to the HSE, there is a need to ensure that there is no lack of clarity regarding the precedence enjoyed by Vote accounting. At the same time, the Health Act, 2004 is an Oireachtas creation and consequently there can be no doubt that the HSE is required to report to the Dáil on both a Vote accounting and on an accruals basis. Furthermore, the 2004 Act does not state that one form of reporting is less or more important than the other. [6.22]

27. The setting of a defined expenditure level for the HSE would not alter the fact that the dominant control in a Vote situation is the amount of money voted for the service
by the Dáil. Putting two systems in place would put at risk the clear acceptance in the HSE and elsewhere that the cash control is dominant. In terms of monitoring the Vote during the year, expenditure levels measured on an accruals basis must take second place to monitoring the Vote. Monitoring the evolution of debtors, creditors and accruals can bridge any gap that exists, particularly in relation to tracking the cost of maintaining the existing level of public services. To the extent that the tension between expenditure on an accruals basis and cash budgeting is an issue, it is already subject to two controls. The first of these is the Prompt Payments Act and the second is the requirement in the Public Financial Procedures to meet mature liabilities even where that would lead to an excess Vote. Both these items are reported upon in notes to the Appropriation Account but there is a public policy case for more frequent monitoring. [6.23]

28. Taking these factors into account the Group concluded that the requirements of the Oireachtas, the Dáil, the Government, the Departments of Health and Children and Finance and the Comptroller and Auditor General would be best served by giving priority to minimising the difficulty in relating information from one form of accounts to the other. In this way, the information supplied to all the parties outlined above as well as to the general reader would be maximised. In addition, there is no demand from these parties for the introduction of a system of determining expenditure levels for the HSE. In the case of the Comptroller and Auditor General’s Office they expressed the view that if such a system were to be introduced, the defined expenditure level should not be set by the HSE itself but given to it at the start of the year. [6.24]

29. While there is no demand for the introduction of a defined expenditure system for the HSE, there is a demand for greater transparency between the Appropriation Account and the Annual Financial Statements, including the notes to both accounts. From a public policy point of view this information is required to more fully monitor the evolving budgetary situation, to better understand the cost of maintaining the existing level of service and to better understand the location of pressure points within the budget. This requirement can be best met by providing the information and clarifications required to better understand the relationship between both sets of accounts and to maximise the value of the two sets combined. The recommendations that follow provide the details on what is required to provide the necessary information and clarifications. In the circumstances the Group is not convinced that the introduction of expenditure determination for the HSE is advisable. [6.25]

Overdraft facilities in Voluntary Hospitals

30. The Group noted the position regarding the December, 2006 Review of Treasury Management and Banking Arrangements of the Health Service Executive was carried out by the National Treasury Management Agency (NTMA) at the request of the Department of Finance. The review made a number of recommendations, one of which was to eliminate the facility for hospitals and agencies to borrow because the cost of this borrowing exceeds the cost of Exchequer funding and has to be paid by
subsequent allocations from the Exchequer. Movements in these overdraft levels can also impact on the cost of maintaining the existing level of service. [6.26]

31. Implementation of these recommendations is the responsibility of the HSE. The HSE has welcomed the recommendations and it has set up a Financial Services Steering Group to implement the recommendations in the review. The HSE has indicated that some of the findings and recommendations could be dealt with as a matter of priority but that others would take longer. Regarding the recommendation to eliminate overdraft facilities in voluntary hospitals and other agencies, the value of these overdrafts at end-2007 exceeded €100m. The HSE is examining the legal implications of this recommendation. Given the existing budgetary pressures the elimination of these overdrafts, even if there is no legal barrier, may not be a priority. In the circumstances a decision to freeze the cash level of the overdrafts might be a useful first step. The cash level to be used should be agreed between the HSE and the Departments of Health and Children and Finance, as any change in the overdraft ceiling could impact on the quantum of service received. [6.27]

**Develop an Integrated National Financial System in the HSE**

32. With regard to the need for an integrated national financial system that would provide standardised accounting and reporting across all units of the HSE, the NTMA review recommended that such a system be implemented with the functionality to support a central treasury unit and single bank account, and which is capable of meeting the requirements for Income and Expenditure reporting, Vote accounting and budgetary control. The Group noted that in a July, 2008 letter from the Department of Finance to the Dáil Committee of Public Accounts, the Department of Finance reported that plans are in train in the HSE to roll out a National Financial System by 2011 [6.28]

**Recommendations**

1. The estimated statement of income and expenditure required by Section 31 (12) of the Health Act, 2004 to be submitted to the Minister for Health and Children with the Annual Service Plan should be further developed to include the following information:

   - the individual elements making up the total Vote amount should add up to the gross voted amount (including Appropriations-in-Aid), with current and capital expenditure shown separately; and current expenditure broken down by Local Health Office, Hospital and demand led scheme, and by care programme.
   - the value of closing debtors, creditors and accruals broken down between current and capital, with the current broken down between pay and non-pay, with the non-pay broken down between agencies and others, plus an estimate of the closing debtors, creditors and accruals under each of the same headings;
• the current budget for new services/new initiatives to be shown separately;

• the value of expenditure to be financed from other Votes, showing current and capital separately; and

• the form of the estimated Income and expenditure statement required by Section 31 (12) of the Health Act, 2004, including the information outlined above, should be specified by the Minister for Health and Children under Section 10 of the Health Act, 2004.

(2) the format of relevant sections of the financial information submitted with the service plan should be coherent with other constituent elements of the accountability framework for the health services. In particular, a programme categorisation of the previous year's estimated outturn and proposed expenditure (with any additional provision for new initiatives clearly identified) should be supplied. This categorisation should facilitate alignment with the outline Vote structure in the Revised Estimates Volume for 2008 (including any revisions to same), the Annual Output Statement for the Health Group of Votes and relevant sections of the HSE Annual Report and Corporate Plan;

(3) Provide monthly profiles using the headings from recommendations (1) and (2) and report monthly on them, together with the value of outstanding matured liabilities and Prompt Payment Act penalty interest, in the monthly Performance Monitoring Report (PMR);

(4) To the extent that the existing accounting systems cannot fully support the requirements at recommendations (1), (2) and (3), including the requirement to report in the required detail at month and year-end, the IT solution required to correct this should be specified and given a high priority, with agreed time lines where all the modifications cannot be implemented at an early date;

(5) Provide a general note on the income side of the Income and Expenditure Accounts (Revenue and Capital) reconciling the Appropriations-in-Aid as shown in the Appropriation Account and the income from sources other than the Exchequer revenue grant and Exchequer capital funding, with a view to explaining the non-Vote HSE income;

(6) Expand the notes on creditors in the Annual Financial Statements (AFS) to show separately capital creditors and capital accruals and revenue creditors and accruals and in the case of revenue accruals show separately accruals for pay and for agencies, including voluntary hospitals;

(7) The creditor figure in the note to the Annual Financial Statements (AFS) on creditors up to one year should have an asterisk explaining how it relates to the creditor figure in Note 3 to the Appropriation Account and Note 3 itself should be developed to show separately the figure for accruals and to relate it to the gross total for accruals on the face of the Appropriation Account;
The level and annual increase in the negative revenue and capital reserves shown in the Annual Financial Statements (AFS) should be explained by a note relating it to the change in creditors, deferred income, current assets and investments;

Consider the scope for freezing the cash value of overdraft levels at voluntary hospitals and agencies, including the impact on service levels, with the actual overdraft levels being monitored on a regular basis by the HSE and the Department of Health and Children.2

The Performance Monitoring Report (PMR) should be further developed to provide more information on the steps needed to correct reported variances from profile/budget; and

Where the Performance Monitoring Report (PMR) indicates that expenditure is running ahead of budget, the report should indicate the steps that are being taken to return spending within budget and where that proposal involves using expenditure Voted for a new service or capital, that proposal should be brought to the Ministers for Health and Children and Finance for early decision.

Where the subsidiary undertakings, listed in Note 26 to the AFS have borrowing powers the exercise of those powers should formally be made subject to the sanction of the Minister for Health and Children with the consent of the Minister for Finance.

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2 See Chapter 5, paragraph 5.70 regarding the monitoring by the HSE of creditors and accruals in Agencies and Voluntary Hospitals
Chapter 1

Reporting Requirements and Key Roles in Public Expenditure Management

Introduction

1.1 The purpose of this chapter is to outline the constitutional, parliamentary, legal and administrative framework for financial reporting and public expenditure management as it pertains to the Health Service Executive (HSE).

1.2 The chapter includes an outline of the specific legal requirements for the HSE to produce both an Appropriation Account and Annual Financial Statements on an accruals basis, prepared in accordance with accounting standards specified by the Minister for Health and Children.

1.3 In this context, the chapter also outlines the respective roles and responsibilities of the HSE Board, the Chief Executive Officer (CEO), the Minister for Health and Children, the Minister of Finance, the Comptroller and Auditor General and the Oireachtas.

1.4 Public Financial Procedures published by the Department of Finance gives detailed guidance as to the appropriate financial management of public monies. In particular it describes the constitutional principles and the financial management roles of relevant State institutions, and sets out the financial procedures concerning Government receipts and expenditure and the main Government accounting procedures, including the treatment of individual types of receipts and expenditure in more detail. It also covers elements of financial management such as the Value-for-Money framework, Procurement and Capital Appraisal, as well as dealing with the accountability framework surrounding receipts and expenditure in relation to EU funds.

1.5 All financial matters connected with public monies are required to be dealt with in accordance with Public Financial Procedures including all financial matters related to the HSE Vote. This chapter summarises some of the key requirements of Public Financial Procedures, and indicates where appropriate how those requirements are to be applied in relation to the HSE Vote.

Constitutional Framework

1.6 In Ireland the basic law of the State is the Constitution, while the three main branches of Government are the Legislature (Oireachtas), the Executive (Government) and the Judiciary. The Constitution provides that:

1.7 The sole and exclusive power of making laws for the State is vested in the Oireachtas (Article 15.2)
1.8 The Executive power of the State is exercised by or on the authority of the Government (Article 28).

1.9 There is a Comptroller and Auditor General who must audit the Government’s accounts (Article 33).

1.10 Government prepares estimates of the receipts and expenditure of the State for each financial year and presents them to Dáil Éireann (Article 28.4.3)

1.11 The Taoiseach, the Tánaiste and the member of the Government who is in charge of the Department of Finance must be members of Dáil Éireann (Article 28.7.1)

1.12 The Constitution lays down (Article 11) the general principle that, unless otherwise provided by law, all revenues of the State must be paid into one fund (called the Central Fund or the Exchequer) on which the Government then draws for expenditure on State services. Government expenditure consists of Voted and non-Voted expenditure.

1.13 Voted expenditure, which forms the larger part of Government expenditure, is for the ordinary services, called Supply Services, of Government Departments and of Offices. On foot of the Government’s proposals, the Dáil authorises (grants or Votes) the moneys for the services each year. The HSE Vote is an example of Voted expenditure for supply services. The right to grant these moneys (more generally referred to as the right to grant supply) is traditionally regarded as one of the most important powers of the Legislature. The Dáil, however, may not Vote money unless it is so requested by the Government (Article 17 of the Constitution). All Voted money has to be accounted for ultimately to Dáil Éireann.

1.14 Non-Voted expenditure is paid by law out of the Central Fund and the relevant legislation provides for such payments without annual reference to the Dáil and consists of items such as the salaries of the President and Comptroller and Auditor General and contributions to the European Union (EU) Budget. Subject to legislation governing individual funds, Public Financial Procedures also apply to other public funds, for example the Dormant Accounts Fund, the Hepatitis C Reparation Fund and the Social Insurance Fund.

**Reporting Requirements specific to the HSE**

1.15 Section 20 of the Health Act, 2004 establishes the Chief Executive Officer as the Accounting Officer for the HSE (Vote 40). Under Section 22 of the Exchequer and Audit Departments Act 1866, an Appropriation Account must be prepared annually in respect of each Vote and transmitted for audit to the Comptroller and Auditor General and also to the Department of Finance. The account must be signed by the Accounting Officer. The Appropriation Account is prepared on a receipts and payments basis and recognises cash received and paid during the period of the account. However, the account also provides information on accruals and additional information by way of notes to the account. It is a non-
cumulative account and any amount of the Vote not spent at year end is surrendered to the Exchequer.

1.16 Section 36 of the Health Act, 2004 also requires the HSE to prepare Annual Financial Statements (AFS), on an Income and Expenditure basis, in such form and in accordance with accounting standards specified by the Minister for Health and Children.

1.17 In preparing the Income and Expenditure accounts, the HSE has adopted Generally Accepted Accounting Principles (GAAP) in accordance with the accounting standards issued by the Accounting Standards Board subject to three exceptions specified by the Minister for Health and Children which concern the treatment of depreciation, capital grants and pensions and reflect the funding of these by the Exchequer on a cash basis.

1.18 Section 7 of the Health Act 2004 requires the HSE to use the resources available to it in the most beneficial, effective and efficient manner to improve, promote and protect the health and welfare of the public. This object is pursued primarily through the adoption by the HSE of a Corporate Plan (Section 29) and a Service Plan (Section 31) and their submission to the Minister for Health and Children for approval. A number of sections in the Act require the HSE to be accountable to the Government and to the Minister for Health and Children, for example, sections 7, 10, 29, 31, and 34.

Role of Department of Finance

1.19 The Minister for Finance has the authority to sanction the spending proposals of the Minister for Health and Children. Section 1(ii) of the Ministers and Secretaries Act 1924 assigns to the Minister for Finance as head of the Department of Finance “all powers, duties and functions connected with the administration and business generally of the public finances”, while Section 2(4) of the same Act gives the Minister for Finance, at his discretion the power, “to sanction the expenses of each Department of State (which includes scheduled Offices under that Act) out of moneys provided by the Oireachtas.” This general power to promote the best use and to manage Exchequer resources though advising the Government on sectoral policy and through the sanctioning of expenditure includes all of the resources Voted for the Department of Health and Children by Dáil Éireann.

1.20 Under the same Act, as amended, the administration and business generally of the public finance of Ireland and all powers, duties and functions connected with the same were assigned to the Department of Finance.

1.21 Although each Minister is in charge of the strategy of his or her own Department, central coordination and control of the public finances is exercised by the Minister for Finance and the Department of Finance under the Ministers and Secretaries Act, 1924. In addition, Section 22 of the Health Act, 2004 confers specific powers
on the HSE in relation to its employees and advisors in such areas as the control of grading, numbers, remuneration, terms and conditions of employment and conditions governing promotion but provides that the exercise of these powers is subject to the approval of the Minister for Health and Children given with the consent of the Minister for Finance. A key responsibility of the Department of Finance is to put before the Government the full implications of policies, including financial consequences.

1.22 The Department of Finance also has a responsibility to control, supervise, coordinate and advise all other Government Departments in financial matters in relation to capital projects. Because of the primacy of the Department of Finance in the administration and business generally of the public finances, its instructions must be observed by all other Vote holders.

1.23 Section 6(3) of the Ministers and Secretaries (Amendment) Act, 1939 provides that whenever any power is vested by statute in a Minister, the administration entailed in the exercise of that power is deemed to be allocated to the Department of that Minister.

**Finance Sanction**

1.24 The expenditure of exchequer monies by the HSE with the approval of the Minister for Health and Children is subject to the prior sanction of the Minister for Finance.

1.25 The issue of a formal sanction by the Minister for Finance in respect of Voted expenditure is required for all expenditure. Neither the voting of money by Dáil Éireann, the approval of a spending proposal by the Government or the inclusion of an allocation in an Estimate constitutes sanction. Failure to seek and obtain sanction of the Minister for Finance for expenditure is viewed as a serious matter.

1.26 Sanction of the Minister for Finance may be in either specific, i.e. related to a particular once-off proposal; or delegated, i.e. general sanction to a Department or Office to deal with clearly defined cases without further recourse to the Department of Finance. Departments and Offices are required to maintain centralised records of sanctions of the Minister for Finance for management and audit purposes.

1.27 As regards the HSE, the Minister for Finance’s sanction is, as indicated above, required for all HSE expenditure – capital under Section 34 of the Health Act 2004 and all expenditure under Section 5 of the Health Act 2004, as amended by Section 105 and Schedule 2 of the Health Act, 2007.

1.28 All expenditure by the HSE must be in compliance with Department of Health and Children approval and Department of Finance sanction: such sanction must be obtained prior to the incurring of the expenditure.
1.29 Only the Department of Finance\(^3\) can operate on the Central Fund as authorised by the Minister for Finance and no issue can be made without proper statutory authority. Every issue from the Exchequer Account is, therefore, first made the subject of a requisition for credit to the Comptroller and Auditor General from the Minister for Finance or an officer of the Minister authorised by the Minister. Except in the case of Supply Services, each requisition must show the governing statutory authority.

1.30 The Comptroller and Auditor General – when satisfied that the amount to be issued is authorised under the relevant statute or, as the case may be, Voted by Dáil Éireann for any Supply Service for the financial year to which the requisition relates – sends the Central Bank a ‘credit’ for that amount which it may then issue on the instructions of the Department of Finance. Daily accounts of transactions of the Exchequer Account are sent by the Bank to the Comptroller and Auditor General. This enables verification that the credit limits have not been exceeded and that no improper issue has been made.

1.31 An account of the receipts into and issues from the Exchequer Account (on a cumulative basis from 1 January), called the Exchequer Statement, is published twice monthly in Iris Oifigiúil (the official gazette). It is also published monthly on the Department of Finance website in the section labelled ‘Exchequer Statements’.

**Grants to outside agencies including Voluntary Hospitals**

1.32 The HSE funds from its Vote a number of service providers for the provision of health and personal social services on its behalf. Before entering into such an arrangement, the HSE determines the maximum amount of funding that it proposes to make available in the financial year under the arrangement and the level of service it expects to be provided for that funding. This funding is charged in the year of account to the Income and Expenditure Account at the maximum determined level for the year although a certain element may not actually be disbursed from the Vote until the following year.

1.33 This reflects the fact that issues from a Vote can only be made in settlement of matured liabilities, whereas in a set of accrual accounts, prepared on a going concern basis, expenditure must be recognised at a much earlier stage. For the purpose of managing the Vote the prior recognition of this reality is not contrary to the principles of Vote Accounting. Succeeding chapters will deal with the implications of this for financial reporting arrangements. It should be noted that a higher expenditure figure in the accrual accounts is not of itself evidence that the underlying spending is running ahead of the amount Voted.

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3 Separate provisions apply in relation to NTMA transactions connected to Exchequer Borrowing
Role of the Minister for Health and Children

1.34 Under the Constitution, the Government has collective responsibility for public policy and for proposing the Estimates of expenditure for the consideration of the Dáil. Section 1(ii) of the Ministers and Secretaries Act 1924 defines the roles and responsibilities of Ministers generally.

1.35 The Minister for Health and Children may give the HSE a general direction in writing in relation to any matter, including policy and the manner in which the HSE performs any of its functions (Section 10).

1.36 The Minister for Health and Children must approve, or, at his/her discretion may amend, the HSE’s corporate plan (Section 29 (5)-(8) and annual service plan (Section 31 (8) and (9) and Section 32) or amendments to them and the HSE must comply with the Minister’s decision in the matter.

1.37 In preparing its corporate plan (Section 29(4)) and annual service plan (Section 31 (3) (f)) the HSE must accord with the policies of Government or the Minister for Health and Children. Indeed, the Minister is obliged in considering whether or not to amend a service plan to decide if the plan meets the requirement of consistency with the policies and objectives of the Minister and Government to the extent that those policies and objectives relate to the functions of the HSE (Section 31(9)(f)).

1.38 In submitting its service plan the HSE must also include a statement of its estimate of the income and expenditure relating to the plan which must be consistent with the Vote for the HSE as published by the Government in the Estimates for Supply Services (Section 31 (12)).

Role of the Board of the HSE

1.39 As noted above, Section 7(i) of the Health Act 2004 states that the objective of the HSE is to use the resources available to it in the most beneficial, effective and efficient manner to improve, promote and protect the health and welfare of the public. Section 12 of the Health Act, 2004 provides that the Board is the governing body of the HSE and that it may delegate to the chief executive officer any of the HSE's functions. In this regard the HSE is required by Section 31 of the Health Act, 2004 to adopt and submit to the Minister for Health and Children for approval, an Annual Service Plan which has due regard to the approved Corporate Plan in operation at that time and any direction issued by the Minister for Health and Children under Section 10 of the Health Act, 2004. The Service Plan has to be adopted and submitted by the HSE within 21 days of the publication by the Government of the Estimates for Supply Services for that financial year or such other period as the Minister may allow. Section 33 of the Health Act, 2004 requires the HSE to manage the health and personal social services indicated in the Service Plan, approved by the Minister with or without amendment, so as to
ensure that the services are delivered in accordance with the plan. The Board shall inform the Minister of any matter that it considers requires the Minister's attention.

1.40 The Board may establish committees to provide it with assistance and advice. A person who is not a member of the Board may be appointed to a Board committee. The Board has established an Audit Committee and a Risk Committee. Further details in relation to these committees are at Appendix 3.

1.41 Under Section 17, the Board has the power to appoint a CEO in accordance with the Public Service Management (Recruitment and Appointments) Act 2004. A person so appointed as CEO holds office on terms and conditions determined by the Board with the approval of the Minister for Health and Children, given with the consent of the Minister for Finance. Section 17 (3) includes separate provisions in relation to the appointment of the first CEO.

Role of the Chief Executive Officer

1.42 Under Section 18 of the Health Act, 2004 the CEO is required carry on and manage and control generally the administration and business of the HSE, to perform such other functions as may be assigned to him by Statute or as may be delegated by the Board, and to supply the Board with such information (including financial information) relating to the performance of his or her functions as the Board may require.

1.43 The CEO is responsible to the Board for the performance of his or her functions and the implementation of the Board's policies, and subject to any directions that may be issued by the Board may delegate in writing any of his or her functions to employees.

1.44 Under Section 20 of the Act, the CEO is the accounting officer appointed by the Minister for Finance in relation to the Appropriation Accounts of the HSE for the purposes of the Comptroller and Auditor General Acts 1866 to 1998.

1.45 In the event that the Board of the HSE fails to submit a Service Plan it becomes the role of the CEO under Section 31 (6) and (11) of the Health Act, 2004.

Roles of Accounting Officer

1.46 Dáil Éireann votes funds every year for Government Departments and Offices to spend on the provision of public services. For example in 2007 Gross Voted Expenditure amounted to 57 billion euro, of which 14 billion euro, or 25%, was allocated to the HSE Vote.

1.47 After the end of the year, Departments and Offices operating the Votes prepare an account of their expenditure and receipts, called the Appropriation Account in accordance with the requirements of the Exchequer and Audit Departments Act
1866. This Account must be signed by the Accounting Officer, who is responsible for having the Account prepared and presented for audit to the Comptroller and Auditor General before 1 April of the year following that to which it relates. In the case of the HSE, the CEO is the Accounting Officer.

1.48 An Accounting Officer is statutorily independent in the performance of his or her duties and is answerable in that regard to the Committee of Public Accounts (PAC). This independence is limited by Section 19(2) of the Comptroller and Auditor General (Amendment) Act, 1993 which prohibits an Accounting Officer from commenting on Ministerial and Government policy.

1.49 The Accounting Officer may be called to appear before the Committee of Public Accounts of the Dáil to give evidence about the Appropriation Account and in relation to any other account that the Department or Office is required to prepare. In the case of the HSE this includes the Income and Expenditure Account prepared under Section 36(2) of the Health Act, 2004.

**The Statutory Duties of Accounting Officers**

1.50 The statutory duties of Accounting Officers in giving evidence to the Committee of Public Accounts are as set out in Section 19 of the Comptroller and Auditor General (Amendment) Act, 1993, as follows:

1. In addition to performing his duty under Section 22 of the Act of 1866, an accounting officer shall, whenever he is so required by the committee of Dáil Éireann established under the Standing Orders of Dáil Éireann to examine and report to Dáil Éireann on the appropriation accounts, give evidence to that committee on—

   (a) the regularity and propriety of the transactions recorded or required to be recorded in any account subject to audit by the Comptroller and Auditor General which he or the Department concerned is required by or under statute to prepare,

   (b) the economy and efficiency of the Department in the use of its resources,

   (c) the systems, procedures and practices employed by the Department for the purpose of evaluating the effectiveness of its operations, and

   (d) any matter affecting the Department referred to in a special report of the Comptroller and Auditor General under Section 11(2) or in any other report of the Comptroller and Auditor General (in so far as it relates to a matter specified in paragraph (a), (b) or (c)) that is laid before Dáil Éireann.
In the performance of his duty under this section an accounting officer shall not question or express an opinion on the merits of any policy of the Government or a Minister of the Government or on the merits of the objectives of such a policy.

1.51 In the case of the HSE Vote, references in this legislation to the Department should be read as references to the HSE.

**Accounting Officers appointed by the Minister for Finance**

1.52 Accounting Officers are appointed by the Minister for Finance under Section 22 of the Exchequer and Audit Departments Act, 1866, or on foot of primary legislation. In the case of the HSE, Section 20 of the Health Act, 2004, provides that the CEO shall be the Accounting Officer for the HSE Vote. The CEO is appointed by the Minister for Finance as Accounting Officer and is subject to the Public Financial Procedures.

1.53 Each Accounting Officer is personally responsible for the safeguarding of public funds and property under his or her control; for the regularity and propriety of all the transactions in each Appropriation Account bearing his or her signature; and for the efficiency and economy of administration in his or her Department. An Accounting Officer cannot delegate this responsibility to subordinate officers.

1.54 Accounting Officers should be satisfied that adequate arrangements exist within their Departments/Offices to ensure the correctness of all payments under their control and to ensure the prompt and efficient recovery and bringing to account of all due receipts connected with the Vote, or with any fund for which their Departments/Offices are responsible. Accounting Officers should also ensure that they have staff throughout their Department/Office who are appropriately trained in the management of public funds, including the requirements of Public Financial Procedures.

1.55 Accounting Officers are required to supply a signed standard Statement of Internal Financial Control (SIFC) confirming that they have certain controls in place in such areas as financial and administrative procedures, internal audit and risk management. A copy of the 2006 Statement signed by the Accounting Officer for the HSE (Vote 40) is at Appendix 4.

1.56 An Accounting Officer is responsible for ensuring that Finance sanction for expenditure has been obtained and for the maintenance of a central record of both delegated and specific sanctions. An Accounting Officer may be held personally responsible for any sum that the Committee of Public Accounts recommends should be disallowed.

1.57 The Accounting Officer should ensure that all relevant financial considerations are taken fully into account, and, where necessary, brought to the attention of Ministers in relation to the preparation and implementation of policy proposals.
relating to expenditure or income for which he or she is Accounting Officer. In the case of the HSE, the corresponding obligation should be seen as relating to the Board of the HSE.

**Difference of opinion between Accounting Officers and Board**

1.58 If, in relation to an area for which the Accounting Officer has a responsibility (e.g. the propriety of a payment or the treatment of a receipt), a difference of opinion arises between an Accounting Officer and the Minister responsible for the service, the Accounting Officer should inform the Minister in writing of his or her view and of the reason for it and suggest a consultation with the Department of Finance. If, notwithstanding this, the Minister gives contrary directions in writing, the Accounting Officer should comply with them after informing the Department of Finance. The papers should be sent to the Comptroller and Auditor General when the directions have been carried out.

1.59 If such a difference of opinion were to arise between the Accounting Officer for the HSE Vote and the Board of the HSE, the Accounting Officer should satisfy himself that the issue was not one of policy [given the prohibition on questioning policy in Section 19(2) of the Comptroller and Auditor General (Amendment) Act, 1993] and if not inform the Chairman of the Board in writing of his or her view and of the reason for it and suggest a consultation with the Departments of Health and Children and Finance. If, notwithstanding this, the Chairman of the Board gives contrary instructions in writing the Accounting Officer should comply after notifying the Department of Health and Children and the Department of Finance, and copy the papers to the Comptroller and Auditor General when the directions have been carried out.

1.60 It is essential that a clear framework exists (whether administratively or legislatively or both) within which proper control and accountability mechanisms are working to ensure that public money is used effectively and in accordance with the terms and conditions with which it was granted, that it is accounted for properly and that reporting to the responsible Ministers and to the Oireachtas is timely, accurate, relevant and comprehensive.

**Comptroller and Auditor General**

1.61 The main statutory functions of the Comptroller and Auditor General are (1) as Comptroller General of the Exchequer, to ensure that no money is issued from the Central Fund by the Minister for Finance except for purposes approved by the Oireachtas; and (2) as Auditor General, to audit Government accounts for accuracy and regularity, and to carry out such examinations as s/he considers appropriate in regard to economy and efficiency on the use of resources and the effectiveness of certain management systems (i.e. a Value-for-Money Audit).
1.62 The Constitution (Article 28.4.3) requires that the Government prepare estimates of the receipts and expenditure of the State for each financial year and present them to Dáil Éireann (this is fulfilled by the annual presentation of the White Paper on Receipts and Expenditure, usually the weekend before the Budget) and that Dáil Éireann consider these estimates as soon as possible after presentation (Article 17.1) and approves them by means of Financial Resolutions. The Constitution further specifies (Article 17.2) that the legislation required (e.g. the Finance Act) to give effect to the Financial Resolutions of each year should be enacted within that year. Various Dáil Committees also have a role in examining the estimates, including for the HSE.

1.63 The Committee of Public Accounts (PAC) is a select committee of the Dáil appointed to examine and report to the Dáil on the Annual Appropriation Accounts (together with the Comptroller and Auditor General’s Report thereon), as well as other Accounts audited by the Comptroller and Auditor General (as they see fit) with the Comptroller and Auditor General’s Reports thereon. The Terms of Reference of the Committee are attached as Appendix 5.

1.64 When it concludes its examination of accounts or reports of the Comptroller and Auditor General, the PAC presents a Report to the Dáil. Neither the Departments concerned nor the Department of Finance are consulted about the Report at the drafting stage. A formal reply to a Report of the PAC is prepared by the Department of Finance in consultation with the Department(s) concerned. Although the PAC’s recommendations carry much weight, the Government is not obliged to accept them.

1.65 The annual Estimates for other Departments and Offices, with their associated Annual Output Statements, are considered by Dáil Select Committees as appropriate. The Select Committee on Health and Children considers the Health Group of Votes and the Minister for Health and Children is accompanied at the Committee by the Secretary General of the Department and by the Chief Executive Officer of the HSE. The terms of reference of the Committee are attached as Appendix 6.

Chief Executive Officer, Accounting Officer and Secretary General Role

1.66 It is important that the different and complementary roles of an Accounting Officer and that of a Secretary General of a Department or that of the CEO of the HSE are clearly understood.

1.67 Under Section 4 of the Public Service Management Act 1997, a Secretary General has authority, responsibility and accountability for carrying out the duties in respect of the operation and management of his or her Department, subject to policy as determined by the Minister.
1.68 By contrast, under Section 18 of the Health Act 2004, the CEO of the HSE is responsible for carrying on, managing and controlling generally the administration and business of the HSE. He is responsible to the Board of the HSE for the performance of his functions and he is also accountable in regard to administration of the HSE to the Oireachtas (Section 21 of the Health Act, 2004 refers). Under Section 12 of that Act, the Board is the governing body of the HSE and it may delegate any of its functions to the CEO.

1.69 All Accounting Officers are personally responsible for the safeguarding of public funds and property under their control; for the regularity and propriety of all the transactions in each Appropriation Account bearing his or her signature; and for the efficiency and economy of administration in his or her Department. An Accounting Officer is statutorily independent in the performance of his or her duties and is answerable in that regard to the PAC. However, this independence is limited by Section 19(2) of the Comptroller and Auditor General (Amendment) Act, 1993, which prohibits an Accounting Officer from commenting on Ministerial and Government policy.

1.70 The fact that an Accounting Officer is also a CEO or a Secretary General does not create any independent right to apply resources, given that in relation to policy matters the Secretary General is responsible to his or her Minister and that the CEO’s line of responsibility is to the board of the relevant organisation. Above all, there is no case for arguing that any Accounting Officer, in his or her own right, has the power to apply resources Voted by the Dáil in a manner other than in accordance with the basis approved by his or her Minister. This is the position for all Accounting Officers including the Accounting Officer for the HSE Vote.
Chapter 2

The Appropriation Account of the Health Service Executive (HSE) Vote 40

Introduction

2.1 The purpose of this chapter is to describe the Appropriation Account for the HSE (Vote 40), including the closing accruals. It outlines the Estimates process used by the Government and Dáil Éireann to Vote money to a government service (such as the HSE through Vote 40) and in turn the process used to account for that money to Dáil Éireann, central to which is the preparation of the Appropriation Accounts.

2.2 The reporting requirements for the HSE in relation to the Appropriation Account are the same as for any other Department or Office. The statutory requirement is for the Appropriation Account to provide details of outturn (i.e. actual payments made and receipts brought to account) against the final Estimate provision for the year.

2.3 The HSE has complied with this requirement in each of the three years since its establishment and the Comptroller and Auditor General has provided audit reports in respect of the 2005 and 2006 Accounts without commenting adversely on the process used to prepare the Accounts. In addition to providing the statutory financial information on a cash basis of accounting, each Appropriation Account also sets out some accrual-based information, including when relevant information on capital carryover. In addition, notes appended to the Appropriation Account provide additional information in relation to the outturn for the year.

2.4 It is not, therefore, unusual for Vote holders to produce accrual based accounting information. One of the standard notes to Appropriation Accounts is an Operating Cost Statement. An Operating Cost Statement shows, on an accruals basis, the total amount of resources consumed by a Department/Office in the year. It provides an operating cost figure by a series of adjustments to the cash-based outturn figure produced by the Appropriation Account. The notes to the Appropriation Account also include a Statement of Assets and Liabilities, together with explanatory notes on (i) Capital Assets, (ii) Capital Assets under Development and (iii) Net Liability to the Exchequer.

2.5 It should be noted that in accordance with normal practice, the Appropriation Account for the HSE includes only Vote income for Vote 40. In contrast the Annual Financial Statements for the HSE include income from other Departments and agencies in respect of services the HSE provides on their behalf. Examples include the Departments of the Environment, Heritage and Local Government, Social and Family Affairs and Community, Rural and Gaeltacht Affairs. Again following normal practice, the monies received from these other Departments and

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4 Position at end June 2008
agencies are included in the Appropriation Accounts of the relevant Departments or Offices.

2.6 In the case of the HSE it is also of interest to note that it has inherited and operates a number of different accounting systems which were designed for Income and Expenditure rather than Vote Accounting. The chapter reviews the reconciliation of the two systems and examines its implications for the level of detail currently provided by the HSE, for example in relation to particular programmes.

2.7 The Accounting Officer has the duty of preparing the Appropriation Account for each Vote under his or her charge. The Appropriation Accounts are required to comply with the provisions of the *Public Financial Procedures* and other directions of the Minister for Finance, and are audited by the Comptroller and Auditor General and considered each year by a select Committee of the Dáil, the Committee of Public Accounts (PAC).

### The Estimates Process

2.8 Dáil Éireann provides money for Voted services by approving estimates, on foot of a motion made by a member of the Government, for those services in the course of each year. In practice the pre-Budget Estimates are published as part of the Pre-Budget Outlook in October; the Budget Estimates are published at Budget time and it is these Estimates – as subsequently updated in the Revised Estimates Volume, published the following February – that are voted on by the Dáil. When an Estimate is passed by the Dáil, it is known as a Vote.

2.9 The Estimates process is initiated by the Minister for Finance bringing a Memorandum to Government around June each year setting out the budgetary outlook for the following year, which represents the background against which spending proposals are developed and discussed between the Minister for Finance and other Ministers over the following months. In October, the Pre-Budget Outlook is published, setting out the expenditure required to continue to provide the current level of public service delivery, as agreed by the Government. In December, the annual Budget sets out all new spending and taxation measures in a single unified Budget. The next leg of the Estimates process is the publication by the Minister for Finance of the Revised Estimates Volume the following February.

### An Estimate has three main parts

2.10 Each full Estimate as set out in the Revised Estimates Volume contains three main parts:

2.11 Part I sets out a formal description of the services to be financed from the Vote, known as the ambit of the Vote. The description for Vote 40 in the 2008 Revised Estimates Volume is “Estimate of the amount required in the year ending 31

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5 Position at end June 2008.
December 2008 for the salaries and expenses of the Health Services Executive and certain other services administered by the Executive, including miscellaneous grants”. The ambit also shows the net amount of money required for the coming financial year, including provision where appropriate for capital carryover under the multi-annual capital envelopes carryover facility. No such carryover has been agreed in respect of the HSE since its establishment.

2.12 Part II names the Department or Office that is responsible for accounting for the Vote and sets out the gross provision sought in the Estimate by subhead. In the case of Vote 40 this part states “Subheads under which this Vote will be accounted for by the Health Service Executive”. The subheads of a Vote set out the detailed allocations of all the expenditure on programmes and services within the ambit of the Vote, and are the headings under which the Department or Office is required to account for the expenditure in its Appropriation Account. The subheads also facilitate the financial control of the Dáil, through the PAC, and enable the Department of Finance to exercise control over expenditure. With the approval of the Department of Finance, allocations may be transferred between subheads by a process known as ‘virement’.

2.13 The Revised Estimates Volume also contains, appended to Part II of each Estimate, an Allied Services Statement. This information is only published in the Revised Estimates Volume. Allied Services cover costs such as Garda drivers for the Minister, superannuation of retired staff and OPW costs for buildings etc. The HSE superannuation cost is paid out of current income and the other areas of expenditure do not apply to it.

2.14 The 2008 Revised Estimates Volume includes a new sub-head configuration (attached as Appendix 7). This configuration would bring this Vote more into line with other Votes, to facilitate reporting to the relevant Ministers, the Government and to Dáil Éireann, under the Exchequer and Audit Acts, 1866 and 1921. It is similar to the approach used in Vote 31, Agriculture, Fisheries and Food. The HSE accounting systems are currently unable to provide financial data in the form required by this new sub-head configuration.

2.15 Part III, which again is published only in the Revised Estimates Volume, repeats certain subheads with supporting detail for the information of the Dáil, including, where appropriate, a separate operating budget showing total expenditure and income (including non-Exchequer income) of certain major bodies grant-aided from the Vote. While it has no statutory effect and is not normally a basis for accounting as far as the Appropriation Account is concerned, Part III is used for control purposes by the Department of Finance. In the case of Vote 40, for example, Part III contains important information on the breakdown of spending between pay and non-pay, and between different care groups, as well as providing details on Appropriations-in-aid, which are very large in respect of the HSE, and on funding by hospital group as well as for each of the major voluntary hospitals.
2.16 No alteration in the form of an Estimate may be made without Finance sanction. Sanction for important changes will not be given unless the prior approval of the Committee of Public Accounts has been obtained by the Department of Finance.

2.17 Except for capital carryover, any balance of a Vote remaining unexpended at the end of the year must be surrendered to the Exchequer and cannot be used for services in the following year. In consequence, and as it may be well into the new financial year before the Dáil has considered and passed the Estimates and the Appropriation Act, provision has to be made to ensure that sufficient funds are available to enable the Supply Services to be maintained until the Dáil has approved the detailed Estimates for each service. This includes payments to creditors outstanding at year-end and identified in due course in the note to the Appropriation Accounts entitled “Statement of Assets and Liabilities as at 31 December 200X”.

The Central Fund (Permanent Provisions) Act, 1965

2.18 The Central Fund (Permanent Provisions) Act, 1965 bridges this gap by authorising the Minister for Finance in every financial year to issue out of the Central Fund and make available, in respect of any Supply Service for which a sum was appropriated in the preceding year’s Appropriation Act, sums not exceeding, in the aggregate, four-fifths of the sums appropriated for it in that Appropriation Act (i.e. four-fifths of the net estimates for the previous year), thereby facilitating the continuance of operations in anticipation of the relevant Vote being passed by the Dáil in due course. This authorisation is subject to the following conditions:

(i) the Minister must ask the Dáil during the financial year to grant Supply for the service in question for that year; and

(ii) the Minister must consider that each issue and each application is necessary.

2.19 In addition, Department of Finance sanction under the 5 year multi annual capital envelope prohibits Departments and bodies from entering into contractual commitments for capital projects which exceed 85%, 75%, 60% and 45% of the capital provision for the current year and for each of the four subsequent years respectively.

Dáil approval of Estimates

2.20 Each Estimate for the Supply Services is considered separately by the Dáil on a motion which must be made by a member of the Government. As soon as an Estimate has been passed by the Dáil, by means of a Financial Resolution, the full amount of the Estimate may be issued from the Exchequer and used for that
service in accordance with the Central Fund (Permanent Provisions) Act, 1965, as amended.

2.21 If, after publication of the Revised Estimates Volume, factors emerge to change the amount of the requisite grant before it has been Voted, the Estimate may be withdrawn and replaced by a Further Revised Estimate. This procedure may also be used where the functions of one Department/Office are transferred to another, either before or after the original Estimates have been Voted.

**Supplementary Estimates**

2.22 A Minister, with the approval of the Minister for Finance, may ask the Dáil during the year for money additional to that provided in the Voted Estimates to meet unforeseen requirements. This can be done by means of a Supplementary Estimate, which may also be used by the Department of Finance to secure Dáil approval to switch money from one particular service to another within a Vote where this cannot be done by virement. A supplementary estimate is also required to use surplus Appropriations-in-aid to finance additional expenditure and to introduce a new service even though no additional money is required (the passing of a Supplementary Estimate would enable expenditure to take place on a new service in advance of the passing of the main Estimate).

2.23 Supplementary Estimates which involve the provision by the Dáil of additional moneys are known as Substantive Supplementary Estimates. Where additional money is not involved, the Dáil is asked to vote a token sum, usually €1,000. Such an approach is adopted, for example, to enable the Dáil debate a service for which the Estimate was previously passed, by agreement, without a debate. The layout of a Supplementary Estimate is broadly the same as the original Estimate. Reference is made in the ambit to a ‘Supplementary Estimate’ instead of an ‘Estimate’ for the service in the same terms as in the original Estimate. If, however, a new service is to be included in the Supplementary Estimate which is outside the ambit of the original Vote, the wording of the ambit must be modified as necessary in the Supplementary Estimate to cover the new service.

2.24 The Dáil debate on a Supplementary Estimate is confined to the items included in it and no discussion may be raised on the original or main Estimate, except to explain or illustrate the particular items under discussion.

2.25 The HSE did not have a Supplementary Estimate in 2005. In 2006 the HSE did not have a Supplementary Estimate for general purposes. However, the establishment of the Special Account, under section 13 of the Health (Repayment) Scheme Act, 2006, necessitated a Supplementary Estimate. In 2007, a supplementary estimate reallocated €245 million within the HSE Vote. The largest single reallocation was an amount of approximately €216m from the long-term charges repayments scheme. It should be noted that viring smaller amounts of money between subheads can be done without recourse to the Dáil with the prior sanction of the Department of Finance. This allows savings in one area to be compensated for by
higher than anticipated spending in another, and can include viring between capital and revenue.

**Appropriation Act**

2.26 The annual Appropriation Act gives statutory effect to the individual Estimates Voted by the Dáil for that year. It is passed by the Oireachtas when consideration of all the Departmental Estimates (including any Supplementary or Additional Estimates) has been finalised by the Dáil. As such, this Act is usually one of the last items of legislative business of the financial year.

2.27 The Act definitively appropriates to the particular services the sums voted by the Dáil (including Supplementary and Additional Votes) in the interval since the previous year’s Act. The ambit (Part I) of each Vote, including the net amount of authorised expenditure on the Vote and the amount of Departmental receipts that may be applied as Appropriations-in-aid of the Vote are all specified in a Schedule to the Appropriation Act.

2.28 While the subheads of Votes do not appear in the Act, they represent the heads under which the Votes are accounted for by the Departments and Offices concerned to Dáil Éireann under the Exchequer and Audit Departments Acts, 1866 and 1921.

2.29 The Appropriation Act also specifies by Vote the amount of unspent capital moneys that may be carried over for expenditure in the following year, in accordance with Section 91 of the Finance Act 2004.

**Appropriation Account**

2.30 After the end of each financial year, each Department or Office with a Vote in the Appropriation Act is required – under Section 22 of the Exchequer and Audit Departments Act, 1866, as amended by the Comptroller and Auditor General (Amendment) Act, 1993 – to prepare an account, known as the Appropriation Account, in respect of each Supply Grant administered by it for submission to the Comptroller and Auditor General. The statutory requirement is for the Appropriation Account to provide details of outturn (i.e. actual payments made and receipts brought to account) against the Estimate provision.

2.31 In general, the layout of the Appropriation Account, showing outturn against estimate, follows Parts I and II of the relevant Estimate. The purpose of this part of the Account is to show that the expenditure recorded has been devoted to the purposes intended by the Dáil.

2.32 The Appropriation Account must comply with Government accounting procedures and any other directions of the Department of Finance. In general, the standard accounting policies in force at the time (which are outlined in the Appropriation
Accounts Volume) must be observed or if not, the departures from these policies must be noted. Note 1 to the HSE 2006 Appropriation Account identifies a small number of exceptions to the standard accounting policies. For example it draws attention to the fact that the HSE depreciate IT assets at a higher rate, and also that they make superannuation payments from Vote 40.

2.33 In addition to the statutory requirements, the Appropriation Account incorporates further information of an accruals nature. Alongside the columns for Estimate and Outturn, each Appropriation Account contains a closing accruals column, showing the net position at year-end regarding accrued expenses, accrued income, deferred income and prepayments. To meet this requirement, the 2006 Appropriation Account for the HSE shows accrued expenditure, net of Appropriations-in-aid, of €1,174 million. In commenting on the HSE Appropriation Account for 2006, the Comptroller and Auditor General explained to the PAC that this figure was attributable to timing factors and a consequential difference arising from matching cash-based funding with accruals-based expenditure. Allowing for differences of scale the same is true for all other Votes.

2.34 Other accruals information is set out within a series of notes to each Appropriation Account, including:

(i) An operating cost statement which shows on an accruals basis, in the context of stated accounting policies and principles, the total amount of resources consumed by a Department/Office in the year. Normally the operating cost figure is produced by making a series of adjustments to the cash-based outturn figure produced by the Appropriation Account. In the case of Vote 40, the purpose of this note is to reconcile net expenditure per the Appropriation Account to net expenditure per the Annual Financial Statements (AFS). In the note to the 2006 Appropriation Accounts the expenditure figure is described as “Expenditure per Income and Expenditure Accounts”.

(ii) A Statement of Assets and Liabilities is provided with explanatory notes on (i) Capital Assets, (ii) Capital Assets under Development and (iii) Net Liability to the Exchequer. The opening and closing values of Capital Assets on a Department/Office’s Asset Register and details of depreciation are shown by way of note to the Statement of Assets and Liabilities. The HSE Account does not show a separate Statement of Capital Assets under Development as these are included as Works in Progress in the Statement of Capital Assets included with the Appropriation Account.

(iii) The notes to the Appropriate Account also provide information on commitments and on the actual position of the Voted service vis-à-vis the Exchequer at year-end. The Net Liability to the Exchequer is the surplus to be surrendered to the Exchequer from the Vote less the amount of the Vote undrawn. The note also illustrates that the Net
Liability to the Exchequer is represented by the difference between debtors and creditors.

(iv) A Note to the Appropriation Account provides information on commitments, including legally enforceable multi-annual capital commitments. A commitment is a contractual obligation to pay on delivery for goods or services which have yet to be supplied at year-end. In the case of grant schemes, a commitment is recognised when the grant is approved but the grantee has yet to fulfil the requirements of the scheme. A global figure for commitments likely to materialise in the subsequent year(s) under (i) procurement and (ii) grant subheads, excluding those under €1,270 is provided by way of note. A separate note is provided giving details of multi-annual capital commitments over €6,350,000. Note 9 to the HSE 2006 Appropriation Account shows global commitments of some €177 million in relation to procurement sub-heads, operating leases and finance leases, and commitments of €790 million on 19 individual capital projects with a project cost over €6.35 million.

(v) The Notes to the Appropriation Account also provide information on matured liabilities at year end and on the amount of prompt payment penalty interest paid during the year.

Purpose of Notes to the Accounts

2.35 In general, notes to the Appropriation Accounts are aimed at drawing the attention of the Dáil, and especially of the Committee of Public Accounts, to matters bearing on parliamentary control. These notes also afford fuller information about transactions, especially those of an unusual nature, recorded in the Account (e.g. losses and special payments, extra remuneration, variations between outturn and estimates provision). Such notes would also include a statement of total expenditure, since the date of establishment, of each Commission/Committee financed from the Vote.

2.36 In general, details are noted regarding write-offs, nugatory expenditure, ex-gratia amounts and extra remuneration of €6,350 or more. Notes may be required for smaller amounts where a serious issue of principle arises or where the Comptroller and Auditor General or the Department of Finance considers that a Note should be given. Individual notes on Appropriations-in-Aid, EU Funding, Lottery Funding etc. are not provided unless the amount exceeds €6,350 or a significant issue arises.

2.37 Any variation from the estimate provision, plus or minus, is noted when the variation exceeds €12,700 and where this represents a variation of 5% or more. With delegated administrative budget subheads the applicable percentage limit is 25% or more.
2.38 Notes to the Accounts are provided in the sequence set out in Appendix 8, although all of the notes outlined may not necessarily arise in a given Department / Office in the year of account, e.g. as noted above the HSE 2006 Account does not include a separate Statement of Capital under Development; nor does it include any spending under Commissions and Inquiries.

2.39 A copy of the account of each grant-in-aid fund should be appended to the Appropriation Account of the Vote from which the grant-in-aid was paid. In certain cases, Departments/Offices also attach a copy of the accounts of non-Voted funds under their control.

The Accounting Officer must sign and present the Account

2.40 Accounting Officers must have the Appropriation Account for each Vote under their control prepared and they must sign and present the account to the Department of Finance and the Comptroller and Auditor General before 1 April of the year following that to which it relates. Accounting Officers are also required to submit a Statement of Internal Financial Controls with their Appropriation Accounts. When certified by the Comptroller and Auditor General, the Accounts and the Comptroller and Auditor General’s report thereon are printed and presented to the Dáil.

Reporting arrangements before and after the establishment of the HSE

2.41 Prior to the establishment of the HSE the Minister for Health and Children determined an annual Income and Expenditure allocation for each Health Board and the Eastern Regional Health Authority (ERHA). This allocation was based on the amount provided in the Department of Health and Children Vote and was the income figure in Annual Financial Statements of the Health Boards and the ERHA. The Accounting Officer for the Department of Health and Children Vote, the Secretary General of that Department, signed the Appropriation Account and gave evidence to the PAC, as required.

2.42 Since the establishment of the HSE and the establishment of the HSE Vote this no longer occurs. The CEO of the HSE is the Accounting Officer for Vote 40 and accordingly he signs the Appropriation Account and gives evidence to the PAC when required. The Vote outturn figure (Vote expenditure figure for the HSE Vote 40) is recognised as the Exchequer income in the Annual Financial Statements (AFS) of the HSE. This is because the year-end Vote surplus must be surrendered to the exchequer and is not available to the HSE.

2.43 The majority of the income in the AFS is exchequer income provided to meet liabilities maturing in the year as opposed to expenditure incurred in the year. A significant part of the remaining income is accounted for on a receipts basis.
2.44 However, expenditure is recorded in the AFS on an accruals basis. As a result the balances on the Income and Expenditure accounts do not represent normal operating surpluses or deficits, but are mainly attributable to the difference between accruals expenditure and cash based funding. These items are treated in greater detail in the next chapter.

2.45 It is notable that the Appropriations-in-aid figures for the HSE are very substantial, amounting to in excess of €2.3 billion in 2006. This reflects in the main receipts from the Social Insurance Fund, recovery of the cost of health services provided under EU regulations, receipts from certain excise duties on tobacco products and patient charges for statutory hospitals. Patient charges for voluntary hospitals are a source of revenue for those hospitals and therefore are not reflected in either the Appropriation Account or the AFS.

2.46 A particular feature of Vote accounting for the HSE is that the HSE operates a number of different accounting systems which were designed for Income and Expenditure rather than Vote Accounting. Consequently, the output of this system has to be modified to produce information in the Vote accounting format required for the Appropriation Account and to report during the year on a Vote basis to the Department of Health and Children and the Department of Finance for Vote control purposes.

2.47 In essence this is done by consolidating the accounts in a single trial balance, and adjusting the expenditure recorded in the Financial Statements for non-cash movements to derive the Appropriation Account. Appendix 9 sets out in detail the different steps required to convert from an Income and Expenditure basis to a Vote basis using the 2006 figures as an example. The primary relationship between the two sets of financial statements is income recognition.

The relevant statutory changes which underpins HSE reporting by Vote structure

Statutory position

2.48 The Health Act 2004, which established the HSE, fundamentally changed the arrangements for funding the health services which applied to the former health boards. The statutory provisions whereby:

(i) the health boards were funded from a grant through the Vote of the Department of Health and Children (Section 32(1) of the Health Act 1970);

(ii) The health boards could borrow, subject to the consent of the Minister for Health and Children with the consent of the Minister for Finance (Section 33 of the 1970 Act, as amended by Section 17 of the 1996 Act);
(iii) the Minister for Health and Children (a) determined the maximum amount of net expenditure in a financial year that could be incurred by a health board (Section 5 of the Health Amendment (No 3) Act, 1996), and (b) specified the amount of indebtedness that a health board could incur (Section 8 of the 1996 Act);

(iv) A health board was required to submit a service plan for the approval of the Minister for Health and Children which included a statement of the services to be provided and the estimates of the income and expenditure for the board for the period of the plan consistent with the financial limits determined by the Minister (Section 6 of the 1996 Act); and

(v) A health board, if the amount of net expenditure incurred by a health board in a financial year was greater or less than the amount determined by the Minister for that year, was obliged to charge the amount of such excess or credit the amount of such surplus in its income and expenditure account for the next year (Section 10 of the 1996) Act;

were repealed by Section 73 and Part 1 of Schedule 4 of the Health Act 2004.

2.49 In their place, the Health Act 2004 gave the HSE its own Vote (Section 74 and 7 of Schedule 5). Vote 40, like all other Votes, provides a cash amount and has no power to borrow. The estimate of income and expenditure relating to the service plan, which the HSE is required to submit for the Minister for Health and Children’s approval, must be consistent with the Vote for the HSE as published by the Government in the Estimates for the Supply Services (Section 31 (12) of the 2004 Act) rather than limits on net expenditure as set by the Minister in the case of the former health boards.

2.50 The statutory provisions in relation to the powers of the former health boards and the HSE to enter into arrangements with service providers and to give assistance to a body which provides health services similar to the boards or the HSE are similar. Either could do so, subject to available resources and on terms and conditions as they saw fit, subject to general directions of the Minister for Health and Children (Section 65 of the Health Act 1953, as amended by Section 26s and 40 of the Health Act, 1970 and Section 19 of the Health (Amendment) (No 3) Act 1996 and Section 38 and 39 of the Health Act, 2004 respectively refer).

**Vote Reporting and Practice**

2.51 Following the establishment of the HSE the legacy financial systems of the former health boards formed the basis of the 10 main individual subheads of the new Vote. Eight of these subheads (B.1 to B.8) reflected the former health board areas. The other two main subheads were B10 (Medical Card Services Scheme) on the basis that the former General Medical Services Board was a separate entity set up to administer the Scheme on behalf of the health boards and B.9 (Grants in respect of certain other bodies including Voluntary and Joint Board Hospitals).
2.52 The remaining subheads of the Vote on the Current side deal with Corporate Administration and other areas such as National Lottery spending. From 2006 a separate subhead (B.14) has been in use for the purposes of the Health Repayment Scheme. This operates under the rules of special accounts which require Department of Finance sanction in respect of all expenditure from the subhead.

2.53 Subhead B16 in the 2008 Vote is a Programme type subhead for long term residential care and Appendix 4 to Vote 40 in the 2008 Revised Estimates Volume signals that the Department of Finance requires further development along these lines for the entire Vote.

Financial provisions to facilitate the transition from Health Boards to HSE

2.54 In recognition of the new financial arrangements and new statutory framework and fact that the HSE, unlike the former health boards, has its own Vote, the gross provision in the Vote for the HSE in the 2005 REV was increased by over €750 million, comprising:

- €543 million in respect of the hospital and other charges that were previously collected and retained by the health boards
- a one off provision of €122 million in respect of accumulated overdrafts of the former health boards which fell to be repaid at the start of 2005, and
- a further one off provision of €94 million in respect of certain statutory and other deductions from the health board salaries in December 2004 which were actually paid to Revenue and other beneficiaries in January 2005.

Development of Accounting Systems

2.55 While the process for deriving the Appropriation Account from the Annual Financial Statements as described in Appendix 9 facilitates Vote reporting on the existing subheads at subhead level, the legacy financial systems continue to be a barrier to reporting by the HSE at a detailed Vote programme level.

2.56 This difficulty was recognised when the HSE was being established and the Department of Finance wrote to the PAC in the following terms:-

“The move to a dual reporting basis income/expenditure and cash/appropriation accounting will require significant configuration, investment and development of the Health Service Executive’s accounting systems. It is intended that the cash/appropriation account requirements will be developed and implemented as part of the Financial Management Project (FISP) being implemented throughout the Health Sector.”
Until the Financial Management project is fully implemented in the HSE planned for 2007, the CEO of the HSE will report on the Vote accounting basis at the level of the health boards and Vote 40 is being structured accordingly. This is the only level within the current accounting system where payments can be reconciled with Vote accounting requirements.”

2.57 The Department of Finance letter to the PAC was based on a letter from the Department of Health and Children of 2 February, 2005 indicating that “a separate module of the FISP will from 2007 allocate spending under the care group heading structure on a monthly and annual basis to the board. These yearly figures can then be returned in the REV as the estimated outturn for the previous year and along with this an associated estimate for the current year. The net result is that the Oireachtas through the REV would be getting the same information and the same detail as the board of the HSE.

2.58 The challenge remains to develop the accounting systems in order to allow the HSE to account for expenditure by care group or programme and so deliver on this commitment. The problems which were identified in respect of the implementation of ICT on establishment of the HSE added to the challenge.

2.59 In this regard, it is noted that the Department of Finance conditions of Sanction for 2008 requires the HSE to take immediate steps to change its business coding to provide for (i) cash accounting as required under public financial procedures, (ii) interim solutions to adapt their financial management systems for this purpose and (iii) a single national financial management system with this capability as soon as possible to facilitate accounting on the basis of the new Vote structure for the HSE as published in REV 2008.

Developments notified by the HSE

2.60 The HSE has communicated with the Department of Health and Children in relation to the challenge posed by this requirement and in relation to reporting on subhead B.16. The scale of this challenge is acknowledged. However, the scale of spending from Vote 40 is very large by reference to overall state spending and consequently the need is great to meet, to the greatest extent possible, the accounting requirements of the Departments of Finance and Health and Children, the Government and the Dáil. In response to this need, it is understood that the HSE has presented to, and currently being examined by, the Department of Health and Children a proposal which incorporates both interim solutions to improve cash accounting and reporting systems, and a longer term solution to deliver an integrated financial management system capable of producing accounts and reporting on both an Income and Expenditure and Vote Accounting basis.

2.61 The HSE provided the following up-date to the Working Group at mid-September, 2008. As background to the up-date, Appendix 10 sets out the current configuration of financial systems inherited by the HSE by HSE area.
Vote Accounting Solution

2.62 The Mid West area undertook a pilot project in 2006 to look to develop a proof of concept for a Vote ledger on the CA/Infor Ledger\(^6\). This proof of concept system was completed and implemented in December 2006. This was done by creating an additional fiscal set on the General Ledger and tagging all the source transactions as Vote/Non Vote. All Vote transactions went into the new Vote Fiscal set. A complete hierarchy of the cost centre structure on the new Vote fiscal set was built in the background thus allowing for Vote reporting at Hospital/Care-Group level. The system also allowed for items such as Capital to be treated as Balance Sheet for Income and Expenditure purposes and cash spend for Vote purposes.

2.63 This system captured Vote Information with a small number of exceptions, which require adjustments at month-end, as follows:

- Unpaid Invoices - allocated back based on legacy General Ledger Code original posting.
- Unpaid Stores Invoices - allocated back based on transfer from stores to all locations in previous year.
- Cash Receipts - allocated based on previous months Income and Expenditure figures. The reason cash receipts have to be allocated is that all cash receipts go directly to the balance sheet.

2.64 Given that the current suites of financial systems in the HSE are primarily geared to Income and Expenditure accounting, there will always be issues around allocating non-vote information at month/year end to arrive at the correct Vote charge. For the same reason there is also a need to reconcile at month-end between the Income and Expenditure fiscal set and the Vote fiscal set.

2.65 The proof of concept proved relatively successful. At year-end 2007 the system produced, before reconciliation, a gross vote charge to within .01% of the gross vote charge produced by the standard process of deriving the Appropriation Account for the Mid West from the Annual Financial Statements (AFS).

2.66 The Vote Account solution in the Mid West is available to be rolled out in the Southern area and old West area as part of their ongoing upgrades to the CA/Infor Ledger upgrades. The methodology should be exactly the same as used in the Mid West but there will be some additional testing required, due to a different platform being used.

2.67 Discussions were held with SAP Ireland in July 2007 to demonstrate the Mid West concept and consider its application to the SAP systems. Following on from that it was agreed that SAP in conjunction with the Vote team would undertake to develop a proof of concept on an existing HSE SAP site. The former Midland area was chosen. The solution was based on using the Special Purpose Ledger in SAP, the principles are as follows:

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\(^6\) Computer Associates (CA) is a company providing organisations with software solutions.
An opening Vote trial balance is manually posted into the Special Purpose Ledger each year.

All entries excluding accrual and prepayment entries that can be identified by Document Type are booked into the special purpose ledger on-line. This places a significant dependency on the correct use of document types by end users.

The total booked to non-Vote balance sheet accounts such as trade creditors and Goods Received / Invoices Received etc. will be summarised and an allocations journal posted (in special purpose ledger only) to an offset balance sheet account and a revenue account. It is anticipated that the HSE will develop a program to automate this posting each month.

While this proof of concept was generally successful there are reservations in relation to this solution as it involves allocations of Non Vote balance sheet accounts and it requires very rigid enforcement in the use of the posting document type in each area.

Considerations of adapting the CA/Infor / SAP interim solutions as a possible National Solution have yet to take place.

Vote Corporate Reporting Solution (CRS)

CMOD approval has been given to implement a Vote CRS Solution. This will automate the production of monthly issues and expenditure returns. Both SAP and CA developed solutions for this and the decision was made to go for the SAP solution. The project is currently ongoing and it is hoped to go-live in February 2009. This project will not give Vote information at Cost Centre level or Programme solution.

Enterprise Resource Product (ERP) Vote Solution

SAP has demonstrated its latest product ERP 6.0 (due for release in Q4 2008) which includes Cash Ledger functionality. A presentation was given to the HSE Finance team and based on that presentation it would appear that ERP 6.0 meets the requirements for Vote Accounting. This solution is fully automated and there is no requirement to do any allocations of Creditor, Stock balances etc in order to produce the correct Vote charge.

The HSE is currently in discussion with DOHC in relation to producing a joint submission to CMOD for approval to implement ERP 6.0. The project has a 2 year time-span from date of approval.
Chapter 3

The Annual Financial Statements for the Health Service Executive (HSE)

Introduction

3.1 The purpose of this chapter is to describe the Annual Financial Statements produced by the HSE.

Background

3.2 Prior to the establishment of the HSE, the annual funding of Health Boards was determined by the Department of Health and Children in accordance with the provisions of the Health (Amendment)(No.3) Act, 1996. The method devised took into account the requirements of funding through the Estimates process (and thereby the provision in the Department of Health and Children Vote) while also establishing the basis for regulation of financial reporting by the boards regarding their annual outturn and approved allocations, on an accruals basis.

3.3 The funding in any year was calculated, in the first instance, by reference to an Expenditure requirement and then further developed into the related Cash requirement made available from the Health Vote. The formulation of each board’s allocation was based upon the Vote provision reflecting the cash required to finance the ‘Expenditure level’ approved by the Ministers for Health and Children and Finance. This explicit approval for the overall expenditure level was notified to Health Boards as revenue determinations and directly linked to the Vote subheads provided within the Health Vote. The Vote subheads contained two distinct elements in this regard,

(1) the amount of Cash required for the provision of Current Year levels of service (consistent with that year’s approved Expenditure level); and

(2) the element of cash necessary in the current year for settling liabilities coming forward from the previous year’s approved Expenditure level. (The Revised Estimates Volume contained a note disclosing this element of the annual approved funding)

3.4 The relevant statutory references which underpinned the carryovers are set out at 2.48 of Chapter 2. As indicated in Chapter 2, the statutory provisions governing the arrangements for funding the health services through the former health boards were repealed by the Health Act 2004. In their place, the Health Act 2004 gave the HSE its own Vote (Section 74 and 7 of Schedule 5) subject to the normal rules that apply to all Votes insofar as it provides a cash amount and has no power to borrow. Instead, the estimate of income and expenditure relating to the service plan, which the HSE is required to submit for the Minister for Health and
Children’s approval, must be consistent with the Vote for the HSE as published by the Government in the Estimates for the Supply Services (Section 31 (12) of the 2004 Act) rather than limits on net expenditure as set by the Minister in the case of the former health boards.

3.5 On the establishment of the HSE, under the provisions of the Health Act, 2004, the HSE was provided with a separate Vote, Vote 40. This required the Accounting Officer of the HSE (the Chief Executive Officer) to produce an Appropriation Account in respect of Vote 40. The issues associated with the Appropriation Account are outlined in the previous chapter.

3.6 Under the provisions of the Health Act, 2004, the HSE is also required to prepare and submit to the Minister for Health and Children an Annual Report which includes the following:

- A general statement of the health and personal social services provided during the preceding year by or on behalf of the HSE and of the activities undertaken by the HSE in that year;
- A report on the implementation of the Corporate Plan;
- A report on the implementation of the Service Plan;
- A report on the implementation of the Capital Plan;
- An indication of the HSE’s arrangements for implementing and maintaining adherence to its Code of Governance;
- A report on the number and type of complaints received, their investigation, review and resolution.

3.7 The 2004 Health Act also requires the HSE to prepare in respect of each financial year Annual Financial Statements in such form as the Minister for Health and Children may direct. On adopting the financial statements the HSE is required to submit a copy of them to the Comptroller and Auditor General for audit and to the Minister for Health and Children at the same time. The Annual Financial Statements are included with the Annual Report.

The Annual Financial Statements (AFS)

3.8 Section 36 (2) of the Health Act, 2004 requires the HSE to prepare Annual Financial Statements (AFS) in such form as the Minister for Health and Children may direct and Section 36 (3) requires that these accounts be prepared in accordance with accounting standards specified by the Minister. The primary financial statements of the HSE comprise a Revenue Income and Expenditure Account, a Capital Income and Expenditure Account, a Balance Sheet and a Cash Flow Statement. The Annual Financial Statements are co-signed by the Chairman.
and CEO of the HSE and are audited by the Comptroller and Auditor General. The Annual Financial Statements, together with the audit report must be submitted to the Minister for laying before the Houses of the Oireachtas and are examined by the Committee of Public Accounts (PAC) alongside the Appropriation Account.

3.9 The Annual Financial Statements are prepared on an income and expenditure basis. That is all income relating to the period is credited, whether actually received or not and in the same manner all expenditure is debited. The balance of the account shows the excess of income over expenditure or vice versa.

3.10 In this regard, it is worth noting that the Appropriation Account for the HSE includes only Vote income for Vote 40 whereas the Annual Financial Statements for the HSE include income from other Departments and agencies for services the HSE provides on their behalf. Following normal practice these monies are included in the Votes and Appropriation Accounts of the relevant Departments or Offices.

3.11 In preparing the Income and Expenditure Accounts, the HSE has adopted Generally Accepted Accounting Principles (GAAP) subject to three exceptions specified by the Minister which concern the treatment of depreciation, capital grants and pensions and which reflect the funding of these by the Exchequer on a cash basis. The HSE Accounting Policies as set out in the 2006 Annual Financial Statements are at Appendix 11 of this report.

Exceptions to the Generally Accepted Accounting Principles (GAAP)

3.12 In summary, the three exceptions to Generally Accepted Accounting Principles specified by the Minister provide as follows:

1. Depreciation is not charged to the Revenue Income and Expenditure Account, rather it is charged to a reserve account: the Capitalisation Account. Reserve accounting is not permitted under GAAP, which would suggest that depreciation be charged to the Revenue Income and Expenditure Account. However given the way in which capital is funded in the public sector, this treatment is considered more appropriate in the HSE.

2. Grants received from the State to fund the purchase of fixed assets are recorded in a Capital Income and Expenditure Account. Under Generally Accepted Accounting Principles (GAAP), capital grants are recorded as deferred income and amortised over the useful life of the related fixed asset, in order to match the accounting treatment of the grant against the related depreciation charge on the fixed asset. In the public sector, capital is funded on a cash basis and it is considered of considerable importance to separately identify capital spending in financial reporting.

3. Pensions are counted for on a pay-as-you-go basis, and the provisions of FRS 17 Retirement Benefits are not applied. The funding of pensions in
the public sector is largely out of current revenue, as is the case with the HSE, and in this context it is not usual for Government Departments or Offices to include an accrued pension liability in their accounts.

3.13 Subject to these three exceptions, just as the reporting requirements for the HSE in relation to the Appropriation Accounts are the same as for any other Department or Office, the preparation of the Annual Financial Statements prepared by the HSE are similar to the type of accounts prepared by a semi-state or private company.

**Generally Accepted Accounting Principles (GAAP)**

3.14 Generally Accepted Accounting Principles are a common set of accounting principles, standards and procedures specific to one country (e.g. Irish GAAP, UK GAAP, US GAAP etc). GAAP is a combination of authoritative standards and accepted methods of preparing accounts.

3.15 The objective of financial statements is to provide information about the reporting entity’s financial performance and financial position that is useful to a wide range of users for assessing the stewardship of the entity’s management and for making economic decisions. For a commercial company, the objective of financial statements can usually be met by focusing exclusively on the needs of present and potential investors. It is clear that investors need information about financial performance and financial position that is useful to them in evaluating the reporting entity’s ability to generate cash and in assessing the entity’s financial adaptability. For a public body such as the HSE, it is clear that the Annual Financial Statements should contain information which both assists the Board in its oversight of the HSE, and informs Ministers, the Government, the Oireachtas and taxpayers as to the financial activities of the HSE.

3.16 Clearly, financial statements do not provide all the information needed by users; they do, however, provide a frame of reference against which users can evaluate the more specific information they obtain from other sources.

**Income and Expenditure Accounting**

3.17 As already noted, the Income and Expenditure accounts are based on the accruals method. In summary, the difference between the cash basis of accounting and the accrual basis is the timing of when transactions are credited or debited to the accounts. In other words, income is counted when the sale occurs and expenses are counted when you receive the goods or services, regardless of when the money for them is actually received or paid.

3.18 To illustrate the difference, a delivery of paper is received in December, 2007 and the invoice is received and paid in January, 2008. Using the cash method of accounting this transaction would be accounted for in 2008 but using the accrual method it would be accounted for in 2007.
3.19 However, the 2007 Appropriation Account would reflect the transaction in its closing accruals on the face of the Appropriation Account and in its creditors figure provided by way of note to the Account.

3.20 The primary financial statements of the HSE, reflecting GAAP principles as modified by the three exceptions specified by the Minister for Health and Children and outlined above are:

- Revenue Income and Expenditure Account;
- Capital Income and Expenditure Account;
- Balance Sheet and
- Cash Flow Statement

**Revenue Income and Expenditure Account**

3.21 The major part of the income in the Revenue Income and Expenditure Account is the income and Appropriations-in-Aid from Vote 40. Taking 2006 as an example, the Exchequer Revenue Grant amounts to just over €9.5 billion of a total income figure of just below €12 billion. This €9.5 billion is the product of the gross amount Voted by Dáil Éireann to Vote 40 less the amount voted for capital expenditure, Appropriations-in-Aid, and the amount surrendered to the Exchequer. The bulk of the remainder of Revenue income is the product of the Appropriations-in-Aid to Vote 40. When the total figure for revenue receipts, including appropriations-in-aid, from Vote 40 is deducted from the total income figure in the HSE’s revenue Income and Expenditure account, the difference between the two in 2006 is just €108,410. Therefore, it is clear that on the income side there is little difference between the cash and accruals basis of accounting.

**Capital and Revenue Expenditure**

3.22 Expenditure in 2006 was just over €12 billion and the operating deficit for the year was €78.6m and the cumulative operating deficit was €863.1m. Income in respect of Capital Services is accounted for in the Capital Income and Expenditure Account. In the case of the Capital Income and Expenditure Account, all but €8.7m of the 2006 capital income was provided by the Oireachtas through Vote 40. The net capital deficit for the year was €5.3m. Therefore, the total of the expenditure side of the Income and Expenditure accounts is significantly greater than the Vote. The revenue and capital deficits largely reflect the difference between cash and accruals based accounting. The combined revenue and capital deficits in 2006 amounted to €83.9m and reflect the increase in closing creditors and accruals, adjusted for changes in current assets and deferred income.
Balance Sheet

3.23 The Balance sheet shows separately, fixed assets, current assets, current liabilities and a Capitalisation Account. Land and buildings account for the vast bulk of the fixed assets and stocks and debtors account for the bulk of current assets. The current liabilities are the creditors at end-year. A note to the account provides additional information on this figure. The Capitalisation Account is largely made up of fixed assets and negative reserves. There are separate reserves for capital and revenue and a note to the Accounts provides the opening and closing balances for these reserves. These reserves are the cumulative operating deficits from the Revenue Income and Expenditure Account and the Capital Income and Expenditure Account. The change in the reserves each year reflects the increase in creditors and accruals over the year, adjusted for changes in current assets and deferred income, and the total is the cumulative difference between accruals and cash. Consequently these negative reserves do not represent normal operating surpluses or deficits. Apart from scale, these differences between accruals and cash would show up for all Votes if they too were required to produce Income and Expenditure Accounts and Balance Sheets on an accruals basis.7

Cash Flow Statement

3.24 The Cash Flow Statement shows the net cash inflow from operating activities. The detailed calculations supporting this figure are provided by way of a Note to the accounts. The Statement also provides information on returns on investments and servicing of finance. The Statement also sets out the impact of capital expenditure on cash flow. The Statement then provides information on the impact of cash flow of capital financing. The main item here is the capital grant received from the Exchequer via Vote 40.

Treatment of Expenditure by voluntary sector including hospitals

3.25 The funding of private sector bodies such as voluntary hospitals has not substantially changed as a result of the establishment of the HSE and Vote 40. However, these bodies are of considerable significance in terms of size and funding requirements. To the extent that they have sources of funding other than the HSE through Vote 40, whether that be in the form of an overdraft or otherwise, they have the potential to increase the volume of services provided in a particular year over and above what can be funded from Voted money. Therefore, information in relation to any such funding sources is relevant to policy makers concerned with the cost of providing existing levels of service. It is also relevant to Ministers, the Government and the Dáil in the context of monitoring the level of service that can be sustained by the money Voted by the Oireachtas in any particular year.

7 See Appendix 19 for worked example, using 2007 figures.

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Notes to the Annual Financial Statements

3.26 A significant volume of additional information is provided by way of Notes to the Annual Financial Statements. In summary,

Note 1 provides information on expenditure by area of operation. The areas of expenditure separated out are the National Hospitals Office, Primary, Community and Continuing Care and Corporate and National Shared Services.

Note 2 provides information on audit fees and the remuneration of Board members, broken down between Executive and Non-Executive.

Note 3 provides additional information on the Exchequer Revenue Grant and Note 4 provides information on patient income.

Note 5 provides information on income from payroll deductions, including superannuation, Agency/Services, canteen and other receipts.

Note 6 breaks down pay expenditure into clinical, non-clinical and other client/patient services. Further information is provided in respect of each category e.g. in the case of the non-clinical, separate figures are provided for management/administration, maintenance/technical and support services.

Note 7 provides information on numbers employed (or Whole Time Equivalents) by area of operation and a summary analysis of pay costs, including basic pay, allowances, overtime, night duty and week-ends.

Note 8 provides considerable information on non-pay expenditure for the categories Clinical, Patient Transport and Ambulance Services, Primary Care and Medical Card Schemes, other client/patient services, housekeeping, Office and Administrative Expenses, the Long Stay Repayment Scheme and other operating expenses.

Notes 9 and 10 provide information on Tangible Fixed Assets, Land and Buildings and separately (Note 10) on Tangible Fixed Assets other than Land and Buildings, including additions, disposals, depreciation and net book value.

Note 11 provides information on unquoted shares.

Note 12 provides detailed information on stocks by category.

Notes 13, 14 and 15 provide further information on debtors, Paymaster General and Exchequer balances and creditors respectively.

Note 16 provides information on the maturity of creditors.

Note 17 provides a definition of Deferred Income.
Note 18 provides information on the Capitalisation Account, the Capital Reserves and the Revenue Reserves.

Note 19 provides further information on Capital Expenditure.

Note 20 provides detailed information on the net cash inflow from Operating Activities.

Note 21 provides further information on the reconciliation of net cash flow to movement in net funds, including the movement in the Revenue Reserve over the year.

Note 22 provides further detail on the drawdown of Vote 40 based on the Appropriation Account for Vote 40.

Note 23 provides additional information on pensions, including the requirement under Section 23 of the Health Act, 2004 to establish a new scheme in respect of new staff employed from 1 January 2005.

Note 24 provides information on the maturity of capital commitments.

Note 25 provides information on operating leases, including information on their maturity.

Note 26 provides a list of subsidiary undertakings and summary descriptions of their functions.

3.27 Separate notes are also provided on Taxation, Insurance, Contingent Liabilities, The Health (Repayment Scheme) Act, 2004 and on Post Balance Sheet Events. Finally there are notes on related party transactions and on approval of the Financial Statements.

In addition:

Appendix 1 provides further details on Grants to Outside Agencies. This is a further breakdown of the figure for Revenue Grants to Outside Agencies provided in Note 8.

Appendix 2 provides further details on Capital Grants to Outside Agencies. This is a further breakdown of the figure for Capital Grants to Outside Agencies provided - Note 19(b).

Appendix 3 provides an analysis of the Miscellaneous Expenditure figure in Note 8.
The relationship between cash, the Vote and the Income and Expenditure Statements

3.28 Appendix 12 is a Table, using 2006 figures for illustrative purposes, which facilitates moving from the Annual Financial Statements to the Vote. The Net Voted amount of €9,991.842M is the total of the current and capital sums issued from the Exchequer in respect of Vote 40 in 2006. When this figure is deducted from the amount Voted by the Dáil the result is the amount surrendered by the HSE to the Exchequer, €365.011M. When the capital amount of €443.724M is excluded from the Net Voted Amount the balance, the revenue amount provided by the Exchequer, is €9,548.118M. This is the first, and main, source of income in the Revenue Income and Expenditure Account. Likewise, the capital amount of €443.224M is the first and main, source of income in the Capital Income and Expenditure Account. Adjusting the Net Voted Amount for movements in Suspense Accounts and Bank Balances provides the figure for cash from the PMG – the first figure in the Table, Appendix 12.

3.29 Appendix 12 then illustrates that by adjusting the net Voted amount for movements in stocks, debtors, creditors, deferred income, other reserves, bank balances, PMG balances and the liability to the Exchequer, the result is Net Income and Expenditure (Current and Capital) of €10,075.731M. Finally, when this figure is adjusted by adding back Appropriations-in-Aid, the result is the Gross Expenditure amount on an accruals basis from the Current and Capital Income and Expenditure Accounts, €12,495.452M.

3.30 The Gross Expenditure figure on an accrual basis €12,495.452M compares with a gross Voted amount (before Appropriations-in-Aid) of €12,294.406M. The difference is mainly due to movements in accruals and Agency services provided for other Departments. The financial information used to build the Annual Financial Statements is the starting point and adjustments are made to this base to produce the figures for the Appropriation Account.

Conclusion

3.31 On both the Revenue and Capital accounts the income side is largely reflective of the money Voted by the Oireachtas, through Vote 40 for the HSE. On the expenditure sides the impact of using the accruals basis is reflected in negative balances in the Income and Expenditure Accounts and negative Revenue and Capital reserves in the balance sheet. However, these negative balances and reserves do not represent normal operating surpluses or deficits, as they are largely attributable to the difference between accruals expenditure and cash based funding. Allowing for scale, all Departments/Offices operating through a Vote would have these negative balances if they were required to produce Income and Expenditure Accounts and balance sheets on an accruals basis.
Chapter 4

The Legal and Reporting Relationship between the Health Service Executive (HSE), the Ministers for Health and Children and Finance, the Government, the Oireachtas and how the existing reporting system supports these relationships.

Introduction

4.1 This chapter deals with the legal and reporting relationship between the HSE, the Ministers for Health and Children and Finance, the Government, the Oireachtas and how the existing reporting system supports these relationships. This Chapter draws on earlier chapters to arrive at some conclusions regarding these relationships, particularly in so far as they relate to the Terms of Reference of the Working Group.

The role of the Oireachtas and Government in relation to the Health Services

4.2 Prior to the establishment of the HSE and the enactment of the Health Act, 2004, the Government and the Oireachtas provided the bulk of the money required to fund the health services. This remains the case. The money was provided through the Vote of the Department of Health and Children and administered through a system of Health Boards, the Eastern Regional Health Authority (ERHA) and Hospitals. The Minister for Health and Children was responsible for health policy and the Accounting Officer for the Health Vote, appointed by the Minister for Finance under the Exchequer and Audit Departments Act, 1866, was the Secretary General of the Department of Health and Children.

4.3 The Minister for Health and Children was answerable to the Government and the Oireachtas for health policy and the Accounting Officer signed the Appropriation Account and gave evidence to the Committee of Public Accounts when required to do so. The Accounting Officer was also Secretary General of the Department of Health and Children and as such was subject to the provisions of the Public Service Management Act, 1997.

4.4 The Department of Health and Children and the health services in general are part of the wider framework of government that is responsible for the provision of a broad range of government services, including the civil service, army and Gardai. The Government is required to provide the resources for all these services through taxation and borrowing and to do this within the Irish constitutional and legal framework already referred to. The requirement to report to the Dáil and to be accountable for the resources Voted by the Dáil flows from this wider constitutional and legal framework. The legal framework in Ireland includes some

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8 Chapter 5 deals with the existing statutory financial reporting arrangements i.e. the Appropriation Account and the Annual Financial Statements
legislation enacted before the establishment of the State e.g. the Exchequer and Audit Department Act, 1866.

**Constitutional Role of Government, the Dáil and Oireachtas in relation to Finance is unchanged.**

4.5 Article 28.4 of the Constitution states :-

1. “The Government shall be responsible to Dáil Éireann,
2. The Government shall meet and act as a collective authority, and shall be collectively responsible for the Departments of State administered by the members of the Government,
3. The Government shall prepare Estimates of the Receipts and Estimates of the Expenditure of the State for each financial year, and shall present them to Dáil Éireann for consideration.”

4.6 Article 33 of the Constitution provides that the Comptroller and Auditor General controls on behalf of the State all disbursements and audits all accounts of moneys administered by or under the authority of the Oireachtas.

**Evolution of the legal structure**

4.7 The Irish legal structure has evolved over the years since the establishment of the State, with the enactment of new legislation governing the role of the Comptroller and Auditor General in 1993, new legislation clarifying the role of Secretary General (the Public Services Management Act, 1997), and legislation establishing new bodies such as the Irish Court Service and the HSE, just to take two examples. The legislation establishing the Irish Court Service and the HSE specified in each case that the CEO was to be the Accounting Officer. In theory, the Minister for Finance can appoint a person other than the CEO/Secretary General to be Accounting Officer in situations where such a provision does not exist but in practice this does not occur. Otherwise, there is no difference between the role and responsibilities of Accounting Officers in general and the role and responsibilities of the Accounting Officers for the Irish Court Service and the HSE. The fact that as CEOs they report to a Board while Secretaries General report to a Minister does not impact on their roles and responsibilities other than in the event of a clash between their dual roles. Were that to occur the issue would involve a Minister in the case of a Secretary General and a Board in the case of the CEO i.e. their direct reports in each case.

**Impact of new legislation on Constitutional and Legal Framework**

4.8 The new legislation expanded the role of the Comptroller and Auditor General, clarified the role of Secretary General and in the case of the Irish Court Services and the HSE carved out functions previously discharged by the parent
Government Department and assigned them to a body established by an Act of the Oireachtas. It is also important to be clear in regard to what remained unchanged following the enactment of the new legislation. In particular it is important to recognise that the roles of Ministers, Government and the Oireachtas in relation to the public services and the public finances remained unchanged as a result of the new legislation. All Accounting Officers remain subject to the Exchequer and Audit Departments Act, 1866 and the Public Financial Procedures. The role and responsibilities of Accounting Officers are set out in two Department of Finance documents, The Public Financial Procedures and The Role and Responsibilities of Accounting Officers.

The role carved out for the HSE by the Health Act, 2004

4.9 The Health Act, 2004 provided for the establishment of the HSE, with its own Board, CEO and it also provided that the CEO is the Accounting Officer in relation to the Appropriation Accounts of the HSE for the purposes of the Comptroller and Auditor General Acts, 1866 to 1998. The Health Act, 2004 also includes provisions in relation to the roles of the Minister for Health and Children, the Minister for Finance, the governance of the HSE, the CEO and the financial reporting arrangements. These provisions together provide the statutory basis for the dual role of the CEO as Accounting Officer and CEO. However, the CEO is appointed as Accounting Officer by the Minister for Finance under the provisions of the Exchequer and Audit Departments Act, 1866 and he is therefore subject to the provisions of the Public Financial Procedures and the Department of Finance Memorandum, The Role and Responsibilities of Accounting Officers.

The Dual Role of Accounting Officer/Secretary General or CEO

4.10 Since the enactment of the Public Service Management Act, 1997 and legislation such as that establishing the Irish Court Service and the HSE, the dual role of Accounting Officer and Secretary General or Chief Executive has become more transparent. However, this dual role has existed in exactly the same way since the foundation of the State. The Public Service Management Act, 1997 simply clarified the role of the Secretary General and his/her relationship with the Minister. It did not reduce the power of the Minister in any way. Neither did the establishment of the HSE reduce the power of the Minister for Health and Children. It did, however, transfer to the HSE functions that had previously been carried out directly by the Department of Health and Children through the Health Boards and Eastern Regional Health Authority (ERHA) and made provision for the governance that was to operate after this transfer e.g. Board, CEO, Corporate Plans, Service Plans, reporting requirements etc.
Chapter four of what is generally referred to as the Mullarkey Report deals with the dual role of Accounting Officers and Secretaries General, including the relationship between Secretaries General and Ministers. The long title of the Mullarkey Report is *Report of the Working Group on the Accountability of Secretaries General and Accounting Officers*. The Group was chaired by Mr Paddy Mullarkey, former Secretary General of the Department of Finance. For ease of reference a list of the members of that group are at Appendix 13 and a copy of Chapter four is at Appendix 14. The Group was established on foot of a Government decision of May, 2000 and it reported in July, 2002. The Report made several recommendations relating to improved governance and accountability, all of which were endorsed by Government decision in December, 2002 and subsequently implemented over the period up to December, 2005.

It is worth noting that the Working Group included a representative of the Office of the Attorney General and that the foreword to the report includes the following acknowledgement:

“In particular, the Group would like to thank the Office of the Attorney General for its comprehensive response to requests for legal advice from the Department of Finance on the Group’s behalf”

In commenting on the impact of the Public Service Management Act, 1997 the Mullarkey Report observes (page 47, Chapter four), that there are significant overlaps between the role of Secretary General and Accounting Officer in relation to financial management. In particular the Report points to the common areas of responsibility, particularly in relation to matters that would give rise to material expenditure on the Appropriation Account, the expectation arising from both roles that the financial management/control systems in place to support the proper administration of the Department are adequate and operating as intended, that the public services for which the Department had a responsibility were being provided in a cost efficient manner and to ensure that responsibilities are assigned to officers of appropriate experience and expertise.

The Mullarkey Report also draws attention to the specific statutory requirement on Secretaries General under the Public Services Management Act, 1997 to ensure that resources of the Department are used in a manner which is in accordance with the Comptroller and Auditor General (Amendment) Act, 1993 so as to enable the Department to appropriately address the matters referred to in Section 19 of that Act. For ease of reference a copy of Section 19 is at Appendix 15. This provision also makes regularity, propriety and value for money key requirements for a Secretary General managing the resources of a Department.

The Mullarkey Report then notes that there is some overlap between the roles of Secretary General and Accounting Officer even in areas where it is not immediately apparent. For example, the Report points to the fact that the Strategy Statement which is the responsibility of the Secretary General is relevant to the
work of the Comptroller and Auditor General to the extent that it is open to him to have regard to it, and other statements/reports published by Departments, in carrying out VFM examinations. In this context the Strategy Statement could be relevant to an Accounting Officer’s evidence before the PAC on a VFM report. To illustrate the degree of overlap the Mullarkey Report includes separate tables (pages 45 and 46, Chapter 4) listing the responsibilities of Secretaries General and Accounting Officers.

4.16 However, the Mullarkey Report is not making the case that there is no difference between the two roles and in fact clearly states that:

“The functions of Accounting Officers in preparing the Appropriation Accounts and giving evidence before the PAC are not part of the functions assigned to Secretaries General pursuant to the 1997 Act, and the provisions of that Act do not apply in relation to the exercise of those functions. Nor was it intended that this should be the case.”

4.17 The Mullarkey Report then goes on to those references in the Public Financial Procedures which enable the Minister to override the Accounting Officer in relation to an area for which the Accounting Officer has responsibility, in these circumstances the papers are sent to the Comptroller and Auditor General. The Report notes that these procedures have rarely, if ever, been used as issues are normally resolved between the Accounting Officer and the Minister. Finally, the Mullarkey Report includes at page 49 a diagram illustrating the relationship between the Accounting Officer and the Secretary General and how both roles relate to the Minister, the Dáil/Seanad, the Select and Joint Committees and the PAC.

The accountability of the HSE Accounting Officer through the Appropriation Account not limited by the requirement under the Health Act, 2004 to produce Annual Financial Statements on an Income and Expenditure basis.

4.18 The role of Accounting Officer has its origins in the Exchequer and Audit Departments Act, 1866. Section 22 of that Act provides for the preparation of Appropriation Accounts by Departments. The term “Department” when used in connection with the duty of Departments of preparing the Appropriation Accounts, was to be “construed as including any public officer or officers to whom that duty shall be assigned by the [UK] Treasury”. The term Accounting Officer was not defined in Irish legislation until the enactment of the Comptroller and Auditor General (Amendment) Act, 1993. The Accounting Officer is defined in that Act as the “Officer referred to in Section 22 of the Exchequer and Audit Departments Act, 1866 to whom the duty of preparing the Appropriation Accounts of a Department is assigned.”

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9 Source: Department of Finance Memorandum, December, 2003, The Role and Responsibilities of Accounting Officers
4.19 Every Accounting Officer is accountable for the money voted to him or her from the time that money is issued from the Exchequer until it is issued to an organisation over which he or she does not exercise direct control. Indeed the responsibilities of Accounting Officers extend beyond their own organisations, where their Vote includes a grant-in-aid. In such circumstances the Accounting Officer is required under the Public Financial Procedures to be satisfied that the accounting system and organisational arrangements of the grantee are adequate to ensure the proper administration of the money and arrange that accounts will be submitted for audit without delay after the end of the financial year.

4.20 It is necessary for Departments and Offices funded through a Vote to open bank accounts from time to time with the commercial banks to facilitate certain payments and receipts. The distinction between public bank accounts and other bank accounts is derived from Section 18 of the Exchequer and Audit Departments Act, 1866 and was concerned to ensure that on the resignation or death of an Accounting Officer public money held in such accounts reverted to the State. The relevant extract from Section 18 reads:

“….and on the death, resignation, or removal of any such public officers or accountants the balances remaining at the credit of such accounts shall, upon the appointment of their successors unless directed by law, vest in and be transferred to the public accounts of such successors at said banks, and shall not in the event of the death of any such public officers or accountants, constitute assets of the deceased, or be in any manner subject to the control of their legal representatives”

4.21 A review of Appropriation Accounts, the Statement by the Accounting Officer on internal Financial Control and the notes appended to the accounts make clear that in practice the Accounting Officer area of responsibility extends from the point of receipt of Voted moneys, including appropriations-in-aid, to the issue of these monies from the organisation over which s/he exercises executive authority and in certain instances this responsibility extends to a limited extent beyond that point. The standard Statement by Accounting Officers on Internal Financial Control acknowledges the responsibility of the Accounting Officer for the system of internal financial control and the internal audit function but in doing so makes reference to the dual responsibility of Accounting Officers in the following terms:

“This responsibility is exercised in the context of the resources available to me and my other obligations as Secretary General/Head of Office”

4.22 In addition, this statement by Accounting Officers confirms that a control environment is in place which involves delegation of financial responsibilities at management level supported by appropriate control and reporting structures. The Statement goes on to confirm that a framework of administrative procedures and regular management reporting is in place including segregation of duties and a system of delegation and accountability including, that
• there is an appropriate budgeting system with an annual budget which is kept under review by senior management;
• there are regular reviews by senior management of periodic and annual financial reports which indicate financial performance against forecasts; and
• a risk management system operates within the Department/Office.

4.23 In note 17 to the 2007 Appropriation Accounts the Accounting Officer for the HSE, Vote 40, says :-

“A Statement of Internal Financial Controls in the standard format for the year ended 31 December, 2007, has been submitted with this Account to the Comptroller and Auditor General.”

4.24 The Statutory requirement for the HSE to prepare Annual Financial Statements, on an Income and Expenditure basis, in such form and in accordance with accounting standards specified by the Minister for Health and Children (Section 36) does not in any way limit the extent of the Accounting Officers responsibility. It is a parallel requirement to produce accounts on a different basis, on an Income and Expenditure basis, and this parallel requirement is discharged through reliance on the same systems of financial and administrative controls that underpin the Appropriation Account.

Further analysis of the overlap between the roles of Accounting Officer and CEO in the HSE

4.25 The Mullarkey Report, at Appendix 14, illustrated the degree of overlap between the roles of Accounting Officers and Secretaries General by listing their respective areas of responsibility. The responsibilities of Accounting Officers have remained unchanged since then, except to the extent that the recommendations of the Mullarkey Report in relation to ensuring that the required systems are in place and providing confirmation of this to the Comptroller and Auditor General apply to them and have been implemented.

4.26 Taking the responsibilities of Accounting Officers first the following is the summary taken from the Mullarkey Report and subsequently reproduced in the 2003 Department of Finance Memorandum for Accounting Officers:

• The safeguarding of public funds and property under his or her control;
• Ensuring that all relevant financial considerations are taken into account and where necessary brought to the attention of Ministers where they concern the preparation and implementation of policy proposals relating to expenditure or income for which s/he is Accounting Officer;
• Economy and efficiency of the Department/Office in the use of its resources, including ensuring that there are adequate financial management systems in place to support the proper administration of the Department/Office in an economic and efficient way;
• The systems, procedures and practices employed by the Department/Office for the purpose of evaluating the effectiveness of its operations;
• The adequacy of arrangements within the Department/Office to ensure the correctness of all payments under his/her control and the prompt and efficient recovery and bringing to account of all receipts connected with the Vote, or with any fund for which his/her Department/Office is responsible;
• Responsibilities for internal audit including reviewing the internal audit function to ensure that they are getting the desired quality of assurance on the adequacy, reliability and efficiency of the Department’s/Office’s internal control system;
• Ensuring that Finance sanction for expenditure has been obtained and for the maintenance of a central record of both delegated and specific sanctions;
• Responsibilities in respect of Grants-in-aid to outside agencies particularly in regard to conditions of the grant; the submission of accounts as well as being satisfied that accounting systems and organisational arrangements of the grantee are adequate to ensure the proper administration of the money;
• Ensuring that there is a framework for control and accountability for public moneys in bodies operating under the aegis of the Department/Office;
• Certain responsibilities for public bank accounts;
• In relation to the Appropriation Account responsibility for preparation and signing;
• Statutory requirement to give evidence to the PAC;
• Not permitted to express to the PAC an opinion on the merits of policy; and
• Procedures exist for sending papers to the Comptroller and Auditor General and the Department of Finance in circumstances where there is a difference of opinion between the Accounting Officer and the Minister in the area for which the Accounting Officer has responsibility.

4.27 In contrast the responsibilities of the CEO of the HSE are :-

• to carry on and manage and control generally the administration and business of the HSE;
• perform such other functions as may be assigned to him or her under the Health Act, 2004 or other enactment or as may be delegated to him or her by the Board;
• supply the Board with such information (including financial information) relating to the performance of his or her functions as the Board may require,
• responsibility to the Board for the performance of his or her functions and the implementation of the Board’s policies;
• delegate any of the above functions, or functions delegated to him or her by the Board, to employees of the HSE;
• In discharging his or her duty to attend before Oireachtas Committees, the CEO shall not question or express an opinion on the merits of any policy of the Government or a Minister of the Government or on the merits of the objectives of such policies;
• the management of effective control systems;
• the oversight and management of performance;

10 Departments of Health and Children and Finance in the case of the HSE
11 In the case of the HSE any such dispute would be between the Accounting Officer and the Board
• together with the Board, responsibility for the system of financial control within the HSE;
• together with the Board responsibility for maintaining a framework of administrative procedures and regular management reporting in place including segregation of duties, a system of delegation and accountability and a system for the authorisation of expenditure.

Conclusions

4.28 It is clear that there is some degree of overlap between the duties and responsibilities of the Accounting Officer for the HSE and the duties and responsibilities of the CEO of the HSE, both roles discharged by the same person. This is particularly true of the financial role. Not alone are many of the same figures used in both the Appropriation Accounts (including notes to the accounts) and in the Annual Financial Statements but both rely on the systems of financial and administrative controls to provide the necessary degree of assurance in relation to the quality of the accounts. This does not mean there is an exact parallel. For example, the Accounting Officer alone is responsible for ensuring that the Appropriation Account is prepared. S/he alone is responsible for signing the Account and for giving evidence before the PAC in relation to it.

4.29 The responsibilities of the Accounting Officer in relation to the Appropriation Accounts start with the receipt of money from the Exchequer and run to the point where that money leaves the control of the HSE and to some extent beyond in the case of grants. The same is true of the parallel responsibility of the CEO for the Annual Financial Statements. The Chairperson of the HSE illustrated the close parallel between the Appropriation Accounts and the Annual Financial Statements when in the course of his Statement on the System of Internal Financial Control in the 2007 Annual Report, he set out the basis for his statement as follows:-

“Basis for Statement
I as Chairperson of the Board of the HSE make this statement in accordance with the Department of Finance’s Code of Practice for the Governance of State Bodies, 2001. In making this Statement on the System of Internal Financial Control the Board has relied on the Statement made by the CEO as Accounting Officer in the 2007 Appropriation Account”

4.30 The diagram at Appendix 16 illustrates the relationship between the roles of the Accounting Officer of the HSE and the CEO of the HSE and the reporting relationship between these roles and the Board of the HSE, the PAC, the Dáil/Seanad, the Joint Oireachtas Committees and the relationship between the Board and the Minister for Health and Children.
5.1 This chapter deals with the existing statutory financial reporting arrangements i.e. the Appropriation Account and the Annual Financial Statements. It draws on earlier chapters to arrive at some conclusions regarding these relationships, particularly in so far as they relate to the Terms of Reference of this Group. It also deals with the HSE budget management and budget monitoring processes.

Estimates Process\textsuperscript{12}

5.2 The Government Estimates process commences for the HSE Vote 40 with a memorandum of engagement from the Secretary General of the Department of Health and Children setting out the parameters for the following year.

5.3 A series of submissions follow between the HSE and the Department of Health and Children, leading to the Pre-Budget Outlook (PBO) including the Pre-Budget Estimates for Public Services. The PBO is published in mid October. The PBO contains the funding for Existing Level of Service (ELS) and follow on full year costs for initiatives/developments commenced in the previous year.

5.4 The Budget Statement of the Minister for Finance includes any expenditure changes for the following year and these are incorporated in the Estimates figures. Shortly thereafter the Minister for Health and Children announces the details of the health items included in the Budget provisions of the Minister for Finance.

5.5 Under the terms of the Health Act, 2004, the HSE is required to prepare an Annual Service Plan. This Plan is adopted by the HSE Board and submitted to the Minister for Health and Children for approval. The Health Act, 2004 requires that the Annual Service Plan be submitted to the Minister for Health and Children within 21 days of the publication of the Estimates or such other period as the Minister may allow\textsuperscript{13}. The Service Plan outlines the agreed level of health and personal social services to be provided by the HSE. The services included in the Plan are to be provided within the allocation Voted by Dáil Éireann and within staffing limits consistent with the Government policy on employment within the health service. The Vote provision is attached as an addendum to the Service Plan but the financial and non-financial elements of the plan are not well integrated.

\textsuperscript{12} Position at end June 2008.

\textsuperscript{13} In 2007 the Minister extended the period to 17\textsuperscript{th} January, 2007 to allow for the inclusion of the measures announced in the Budget. The 2007 Plan was approved by the Minister for health and Children on 7\textsuperscript{th} February, 2007.
5.6 The Service Plan as approved by the Minister for Health and Children forms the basis of the HSE’s business planning process for the year.

5.7 Section 31 (12) of the Health Act, 2004 requires the HSE to attach to its Annual Service Plan an estimate of Income and Expenditure. This section requires that estimate of Income and Expenditure must be consistent with the Vote for the Executive as published by the Government in the Estimates for Supply Services. Section 31 (12) does not specify whether this statement is to be on a cash basis or on an accruals basis. As the Minister for Health and Children has specified Accounting Standards under Section 36 (2) of the Health Act, 2004, the HSE would need to provide a sound justification for departing from those standards when preparing the estimate of Income and Expenditure required by Section 31 (12) of the Health Act, 2004. The Minister for Health and Children could, under Section 10 of the Health Act, 2004, specify the Accounting basis and format to be used when preparing the Estimate of Income and Expenditure required by Section 31 (12) of the same Act. The case for doing so is considered in the next chapter of this report.

5.8 If the Income and Expenditure estimate prepared in response to section 31 (12) of the Health Act, 2004 were to be on an accruals basis the total for expenditure may not be the same as the total provided in the Vote. This comes about because what is recorded as expenditure using the accruals approach is the expenditure incurred in the accounting period regardless of whether or not the bills are paid in that period. The actual relationship between the total expenditure, on an Income and Expenditure basis, and the cash required is illustrated for the years 2006 and 2007 in Appendix 17. It also shows how the cash required in the period relates to the net cash drawn from the PMG, also illustrated in Appendix 18. Using 2007 as an example, Appendix 17 shows that the total expenditure for the year, measured on an Income and Expenditure basis, was €14.177 billion, while the cash required to support that level of spending was €14.063 billion. The difference between the two figures is €114.256 million which is explained by the increase in creditors less the increase in current assets, including deferred income.

5.9 The relationship between the Appropriation Account for Vote 40 and the HSE Income and Expenditure Account, using 2007 as an example, is further illustrated in Appendix 18. This Appendix shows how cash, Vote and the Income and Expenditure Account are reconciled for 2007. It should be noted that the Income and Expenditure Accounts include expenditure funded from Votes other than Vote 40 where the HSE provides agency services to other Vote holders.

5.10 The first figure in Appendix 18 shows that the gross cash provided to the HSE by the Paymaster-General (PMG) in 2007 was €13.902 bn, including €115m in respect of the Long Stay Repayment Scheme. When this figure is adjusted for Appropriations-in-Aid lodged to the PMG and those retained by the HSE, the net cash amounts to €11.391 bn. Adjusting this figure for changes in bank balances and suspense account balances provides the net Voted expenditure shown in the final 2007 Appropriation Account, supplied to the Working Group by the HSE, €11.435 bn.
5.11 **Appendix 18** also shows that adjusting the net Voted expenditure for changes in stocks, debtors, creditors, deferred income and bank, PMG and Exchequer positions gives net expenditure on an Income and Expenditure basis of €11.55 bn.

5.12 Appendix 17 also shows how the figure for net expenditure on an Income and Expenditure basis is obtained from the 2007 Annual Financial Statements of the HSE. First, gross expenditure as derived from the 2007 Income and Expenditure basis (Revenue and Capital) was €14.177 billion. Then net expenditure on an Income and Expenditure basis is derived by deducting the Revenue and Capital income derived from the same accounts, giving the figure of €11.55 bn.

5.13 The challenge for the HSE is to deliver its Service Plan within the Vote allocated by Dáil Éireann. To achieve this it needs to keep expenditure, measured on a Vote basis, within the Vote allocation without breaching the provisions of the Prompt Payments Act and while adhering to the requirement in the Public Financial Procedures to meet matured liabilities as they arise, even where this would lead to an excess Vote. In managing Vote expenditure the HSE also needs to monitor and manage expenditure on an accruals basis in a manner which is consistent with the Vote allocated by Dáil Éireann.

5.14 From a public policy viewpoint, changes in HSE creditors over the course of the year are also of interest because of their impact on the cost of maintaining the Existing Level of Service (ELS) to the public. An uncontrolled growth in creditors and accruals could mask exceptional growth in the cost of maintaining the level of service being provided in the current year. Other changes that can impact on the cost of maintaining ELS are changes in overdraft levels and creditors at agencies funded from the HSE Vote. Many of these agencies, including voluntary hospitals have funding sources other than Vote 40. For example, the voluntary hospitals have private beds part funded by insurance companies, while some agencies in other sectors have fairly diverse funding schemes. In the circumstances, while the HSE only recognises overdrafts to a limit of 7 ½ % of the annual allocation, the HSE does not have direct control over the ability of the boards of these agencies to otherwise accrue liabilities. These funding arrangements pre-date the establishment of the HSE.

5.15 In general terms, when the Vote for the year is finalised the HSE converts the available cash into budgets for its front line managers. In total, these budgets represent the scope available to the managers to incur expenditure as measured on an accruals basis. With the exception of changes in overdrafts at Agencies funded by the HSE, the cash amounts supporting these budgets are identical to the amounts on an accruals basis. Limiting the budgets to the total of the available cash means that in circumstances where the Vote is increasing year-on-year, the increase in closing creditors and accruals, adjusted for current assets and deferred income, over opening creditors and accruals, similarly adjusted, is available to meet emerging spending pressures, measured on an Income and Expenditure basis, over the course of the year. **Appendix 19** illustrates that in 2007 the difference between the closing position and the opening position was

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14 Current assets include stocks, debtors, the PMG Account and cash.
€114.156 million. The end-2007 figure for creditors and accruals included capital creditors and accruals of €102 million, an increase of €73 million over the end-2006 total of €29 million.

5.16 Given that the budgets issued to front line management are reflective of the available cash, they represent the upper limit of cash payments consistent with adhering to the rules regarding meeting matured liabilities, the Prompt Payment Act and surrendering to the Exchequer any Appropriations-in-Aid in excess of those included in Vote 40. As the budgets issued to front line managers by the HSE equate to the available cash\(^\text{15}\), any increase in creditors (adjusted for current assets and deferred income) is then available to meet emerging spending pressures, measured in an Income and Expenditure basis, over the course of the year. This can only be done if the cash budget for the year allows, because the Vote is the dominant control when it comes to deciding on spending levels. As Appendix 19 illustrates, in 2007 creditors and accruals increased by €162 million between 1 January and 31 December. However, when this €162m is adjusted for increases in current assets and reductions in deferred income over the period the outcome is the €114.156 million already referred to above and this is also the combined current and capital deficits in the 2007 Annual Financial Statements.

5.17 At local level, HSE Service Managers manage their budgets on an accruals basis and they may not be aware of their cash limit; however, regional Assistant Directors of Finance are fully aware of the cash and Vote requirements of their regions. At local level, managers consider expenditure to arise once they incur the liability to pay for the good or service, as opposed to when payment is actually made or when a matured liability arises, as would be the case for someone managing their allocation on a Vote basis. In any given year, therefore, a €100m budget allocation to a local level manager means s/he can incur €100m worth of accrued expenditure. The amount of cash required in a given year for that budget will be less than €100m, as some bills will fall to be paid the following year. However, cash will also be required to pay bills in the current year that were carried over from the previous year’s budget. If the cash demand in the current year is less than €100m, the cash balance is available at national level to deal with emerging spending pressures.

5.18 At national level the cash budgets are closely monitored and if expenditure on an accruals basis gives rise to greater calls on the cash budget than originally allowed for, the service managers can be instructed to reduce their expenditure below the level originally budgeted for\(^\text{16}\). This allows the front line managers operate an accruals based budgeting system with the national level control stepping in if the available cash is unable to support the level of spending consistent with the Income and Expenditure budget they were allocated for the accounting period.

\(^{15}\) Subject only to changes in overdraft levels in agencies funded from the HSE Vote.

\(^{16}\) The alternative open to management is to seek savings elsewhere either by virement or, as in 2007, by Supplementary Estimate.
HSE Budget Management

5.19 A key constraint on how the budget and therefore Vote 40 is managed is the fact that management information is produced by a variety of legacy financial systems which operate on an accruals (Income and Expenditure) basis. The information produced by this financial system has to be recast to produce a Vote report at National level. The HSE budget monitoring system has been modified in order to give priority to adhering to the limits imposed by the cash budget. This modification provides a structure at national and local management level within the HSE which is capable of managing within the provisions of Vote 40 and the overall cash budget.

5.20 Some of these legacy accounting systems are more advanced than others and so the capacity to respond to requests for additional information is not uniform throughout the HSE. This point was made by HSE representatives in response to questions about more frequent monitoring of creditors.

5.21 The HSE manages Vote 40 against the approved estimate, by subhead on a regional and corporate basis, in compliance with Government accounting rules and with due regard to the relevant legislation. The HSE does not operate a separate Vote accounting system, data is extracted from the existing income and expenditure systems and analysed to identify the relevant Vote and non-Vote transactions. The Vote expenditure is reconciled with the expenditure on an income and expenditure basis, monthly. An example of the monthly reconciliation which is undertaken by each region on a monthly basis is set out in Appendix 20. Monthly cash limits are used to control the level of cash drawn from the PMG/Exchequer. These limits do not control expenditure directly, but rather act as an early warning signal to highlight pressure points within the HSE system.

HSE Responsibilities

5.22 Within the Corporate Finance Directorate, the Finance Director has 10 Assistant National Directors (AND) reporting to him, including those with responsibility for Annual Financial Statements/Governance, Value for Money and Primary Care Reimbursement Service. However, primary responsibility for controlling expenditure rests with the individual budget holder.

5.23 The AND for Corporate Budgeting and Control is responsible for budget management on an accruals basis and for its allocation at a broad level, including to the four ANDs in the Area Resource Management Units who are responsible for budget management and allocation down to individual hospital and NHO level. There is a separate AND with responsibility for capital.

5.24 Vote and Treasury Management is responsible for HSE Vote Reporting and Compliance and for managing cash. This process is illustrated in Appendix 21.
HSE Budget Allocation Process

5.25 When the National Service Plan has received Ministerial approval, Corporate Reporting and Budgeting of the HSE determines the budget allocations on an Income and Expenditure basis for individual hospitals and Local Health Offices. The budgeting process involves the roll forward of the previous year’s allocation (adjusted down by amounts specific to the previous year, adjusted up for known new developments specific to the year being budgeted for). These baseline allocations are then adjusted in turn for pay awards, increments, non pay inflation and other projected variances.

New Service Development Money

5.26 The 2007 Annual Report of the Comptroller and Auditor General (C&AG) has a section dealing with Budget Management in the HSE17. In that section he estimates that in 2007 savings as a result of delaying service developments amounted to €208 million. The main areas affected were services for older people (€74m), sundry hospital services (€38m), disability services (€31m), primary care (€22m), mental health services (€22m) and other services (€21m). That section of the Comptroller and Auditor General’s Report concludes by listing the initiatives that have been taken or are proposed to improve the financial management in the HSE. The list of initiatives was provided to the Comptroller and Auditor General by the Accounting Officer for the HSE Vote 40.

5.27 Any New Service Development Money announced on Budget Day is included in the Revised Estimates Volume and in the total HSE budget for distribution. Subject to obtaining normal Department of Finance sanction, the HSE is required to spend these monies in line with Government priorities. In the event that budget management fails to keep core spending in line with profile and the requirement to balance the Vote is put at risk, any proposal from the HSE to allocate these monies in a manner different to what was originally decided by the Government would require the prior approval of the Minister for Health and Children and sanction from the Department of Finance or a Supplementary Estimate. Any such approval needs to be sought as early as possible in the year and in time to allow Ministers and the Government consider alternative options18.

HSE Budget Management Process

5.28 At the beginning of each year monthly profiles of expenditure for each Vote are published by the Department of Finance. After the annual budget has been allocated within the HSE as described above, monthly profiles of this expenditure – taking into account VFM initiatives – are prepared by the HSE.

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17 Chapter 14, pages 127 – 135.
18 See Chapter 2, paragraph 2.25 for description of 2007 Supplementary Estimate.
New development funding is profiled at corporate level. For example, at an aggregate level the amount of budget allocated for current services in 2008 is equivalent to €13,708m which is the gross current Revised Estimates Volume (REV) provision less the HSE ‘own income’, i.e. maintenance charges, superannuation and other miscellaneous income. The amount of cash available for the year to fund current services is equal to this figure. The Gross Capital figure for 2008 is €594m. Appendix 22 illustrates how these figures are derived for the years 2006, 2007 and 2008.

5.29 In the case of Vote 40, variances from the HSE profile are reported by HSE Vote and Treasury Management both in its monthly issues figures, submitted on the third last working day of each month, and elaborated in its returns figures, submitted on the fifth working day of the month.

5.30 As the monthly Vote figures are derived on a sub-head basis at regional level, their explanatory power is quite limited and more detailed explanations of variances only become available a month in arrears through the monthly Performance Monitoring Reports (PMR) which present the more detailed financial information available from the Income and Expenditure accounting systems.

Current Budget Monitoring Process

5.31 The HSE has a standard Performance Monitoring Framework in place which is intended to allow all levels of the HSE to monitor the achievement of the objectives in the service plan, within allocated resources and approved employment levels, with a view to taking whatever corrective action is necessary. A monthly Performance Monitoring Report (PMR), produced at national level, provides a wide range of performance data for the national level and also for the various pillars and units of the organisation. It also includes details of financial performance against budget and a comparison with the previous year.

5.32 While the PMR contains both financial data and non-financial data, the link between the two is weak. In particular there is insufficient explanation of variances, their impact on the level of activity and the actions that local management intend to take to get back on budget. This lack of integration between the financial and non-financial information can be traced back to the annual service plan itself. Further development of the Estimate of the Income and Expenditure Statement required by Section 31 (12) of the Health Act, 2004 would provide a better base for monitoring HSE expenditure in the context of the PMR.

Current HSE Cash Management Process

5.33 Cash budgets are requested from all cash points (regions can have more than one cash point) by the Vote and Treasury section in the first week of January each year. Cash allocations are based on actual Income and Expenditure allocations
as advised by the Corporate Reporting and Budgeting section at the start of the year. The cash limit for the year takes account of the outturn for the previous year and is equal to the Income and Expenditure Budget for the year which in turn is equal to the gross Voted amount less the projected receipts / Appropriations-in-Aid collected by the HSE itself. Agencies funded by the HSE are asked to profile their cash for each month based on available maximum cash resource. Cash profiles must incorporate expected pay claims, timing of new service developments, operational timing of Accounts Payable and Payroll runs as well as cashing of the voluntary overdrafts in certain agencies funded by the HSE. Each cash profile is tested for reasonableness ensuring that there is a realistic spread of cash across all twelve months.

5.34 In terms of the week to week management of cash in the HSE the following rules apply:

- In general the amount of cash issued in the previous year (say 2007) forms the basis of the following year’s cash issues (say 2008), until final allocations for the new year (2008) are advised to each Regional Area and Voluntary agency.

- When Regional budgets are allocated, each Regional area is required to provide a monthly cash profile for the year, which agrees with available cash.

- This monthly cash profile is required to be signed off by the Area Assistant National Director of Finance, reflecting the fact that cash is paid centrally to several cash points within a regional area.

- Each regional area must adhere to its own cash limits.

Agreed Procedures to deal with additional cash demands

5.35 Where an agency is involved it must identify and explain the main factors causing the increased demand for cash.

- These details must be signed off by the relevant Area Assistant National Director of Finance. A decision to accelerate the cash issue to an individual cash point can only be made on the basis that the regional cash limit will be adhered to within the calendar year.

- Where the cash acceleration would break the profile, the cash point must submit a revised cash profile showing how it intends to get back in line with the profile before year-end.

Agreed Procedures where the annualised cash required is greater than the Annual Cash Available:

- The agency must identify and explain the expected cash shortfall.
The Regional annual cash projection needs to be identified and explained.

Where a cash deficit is projected, each Regional area will be required to develop remedial courses of action with a view to remaining within the maximum annual cash budget.

Details of the shortfall and proposed remedial action to be taken are required to be signed off by the relevant Assistant National Director and forwarded to HSE Corporate for approval.

Release of cash beyond the available annual profile requires to be signed off by the National Director of Finance.

Current Vote Reporting Process

5.36 The HSE profiles its Vote expenditure following the agreement of the estimate for Vote 40. This is done in consultation with the Department of Health and Children.

5.37 Monthly exchequer issues are required to be returned jointly to the Department of Health and Children and the Department of Finance, on the 3rd last working day of the month in question. The return is in summary form showing cumulative net revenue and capital for the year to date. The return is prepared from the previous months Vote return, the previous months reconciliation of Vote to the Corporate Reporting Solution, the cash issued for the month and projected movements in bank and suspense account balances. The issues return is reconciled to the cash drawn down, the PMG statements and the Corporate Reporting Solution / Income and Expenditure report of the previous month.

5.38 Monthly Vote reports are submitted jointly to the Department of Health and Children and the Department of Finance, on the 5th working day of the month following the period to which they relate. Currently 14 returns are submitted and consolidated centrally by the Vote and Treasury section to form the monthly return. In response to a requirement included as part of the 2008 letter of sanction from the Department of Finance, a revised Vote report has been developed in conjunction with the Department of Health and Children and the Service Pillars. The revised report includes a summary reconciliation of expenditure on an Income and Expenditure basis to Vote expenditure.

5.39 Following the audit of the Annual Financial Statements and the Appropriation Account a document detailing the reconciliation of the two statutory accounts is prepared, reviewed by the Audit Committee and published on the HSE website.

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19 For example in months where there are five Thursdays, PAYE and PRSI balances will increase. This is an example where cash does not equal vote as PAYE and PRSI balances will not be paid over to Revenue until the following month.
HSE Capital Budgeting Process

Construction Projects

5.40 The Capital Plan is prepared by the Estates Directorate in consultation with service personnel in the National Hospitals Office and the Primary, Community and Continuing Care directorate. The Capital Plan is submitted by the board of the HSE to the Ministers for Health and Children and Finance for approval.

5.41 Projects are prioritised in order to address existing service deficits and having regard to policy documents issued by the Department of Health and Children, including the Health Strategy. Other government policy documents are also considered including the National Development Plan 2007-2013 and the National Spatial Strategy. Projects are also prioritised having regard to the HSE’s Corporate Plan and Service Plan.

5.42 A capital project is not approved until the National Director of Estates issues a formal letter of approval for the respective project. Inclusion of a project on the Capital Plan does not imply approval. It has to be approved through the formal project approval process. The capital projects approval process is as follows:

- A project brief, options appraisal report, revenue and capital costing report and projected cash flow analysis are submitted to the relevant steering committee by the project sponsor. A steering committee has been established for both National Hospital’s Office (NHO) and Primary, Community and Continuing Care (PCCC) capital projects. The steering committees have senior representation from the NHO, PCCC, Estates and Finance directorates.

- It is the responsibility of the steering committees to ensure that all projects meet service priorities and are in line with regional and national service priorities. Once a project has been endorsed by the steering committee, the Chair of the respective steering committee notifies the National Director of Estates.

- The National Director of Estates considers the proposed project and if he is in agreement with it he will subsequently issue a letter of approval to initiate the capital project, provided the project is within the criteria and parameters for which it was included in the Capital Plan. The letter is issued to the relevant Assistant National Director of Estates and a copy is also sent to the relevant service and finance personnel. The initiation approval will set out the parameters in which the project must remain, e.g. budget limit, defined deliverables, etc.

5.43 It is a function of the National Director of Estates to sanction, approve, procure and manage all projects and schemes, related contracts and professional services within the agreed Capital Plan and budget. The Capital Projects Approvals Manual is the protocol which ensures proper governance and timely procurement of individual projects within the plan. Stage approvals are required for all projects, many of which can be executed at sub area and area level subject to certain criteria and cost band threshold limits.
ICT Projects

5.44 The ICT Directorate has adopted a project management framework in order to improve the prioritisation, management and governance of ICT projects. It includes a project approval process which adopts a methodology to filter project proposals from all directorates to provide a short list of proposals for approval by the HSE and by the Department of Finance. The process ensures that proposals are supported by a comprehensive business case and have financial and staff resources committed and available from within the overall financial and staff resources available to the HSE.

5.45 The project approval process has four stages which are as follows:

1. Idea Stage
This is where the project concept for the ICT system goes through an ex-ante evaluation, is documented in a project proposal by the proposer and is approved by the Project sponsor and the National Director of the relevant Directorate.

2. Detailed definition
This involves the development of a business case, prepared by a business case team. It also involves the approval and prioritisation of business cases by the National Director for the Directorate.

3. Internal Approval
This stages centres on the review, ranking and approval of business cases by the ICT Executive and the ICT Steering Group and the commitment of internal resources by the service and ICT to the project. The ICT Executive is responsible for ensuring that all technology projects align to the key goals and strategies of the HSE.

4. External Approval
This stage includes the preparation of documentation, internal QA review (if required), advising the HSE Board of the proposal (if required) and the review and approval of proposals by the Department of Health and Children and when endorsed should be forwarded to the Centre for Management and Organisation Development (CMOD) in the Department of Finance for approval, which may include a peer review.

5.46 In accordance with Circular 16/97 issued by the Department of Finance, all ICT projects require approval from CMOD in the Department of Finance. Approval from CMOD is mediated through the Department of Health and Children.

5.47 Once an ICT project has been sanctioned by CMOD, a letter of approval is issued by the Head of ICT to the Director of Information Systems with responsibility for the project and the relevant finance personnel are also copied on the letter with any conditions of sanction included. All projects must comply with the “Governance and technical principles for ICT developments in the health sector” as required by the Department of Health and Children and CMOD throughout the lifetime of the project.
A project team was established in September 2007 with the objective of developing an ICT strategy within the agreed terms of reference. The project is being undertaken by a small project team who report to the Head of ICT. The Chief Executive of the HSE and the board have committed to developing a strategy for ICT. The strategy will be for a period of three years from 2008 to 2011.

**Capital Budgeting**

5.49 The capital cash requirements for a project are derived by using software known as the Q Cost system. This budget requirement is incorporated in the Capital Plan. It is adjusted annually for inflation.

5.50 A monthly capital cash profile is prepared at the commencement of the year for both construction and ICT projects, that is, subheads C1, C2, C3 and C4. The profile for construction projects is determined having regard to the stage of each project contained in the capital plan. In the case of existing ICT projects, the profile is determined having regard to the stage of the project and the expected completion date. In the case of new projects, the anticipated drawdown is heavily weighted toward the latter quarter of the year, having regard to the Department of Finance (CMOD) approval process.

**Cash issues for Capital Projects**

5.51 The HSE HQ Capital Section is responsible for managing the cashing of approved capital projects in all areas, including the voluntary service providers, that is, the thirty six voluntary service providers in the East (previously cashed by the former ERHA), St John’s Hospital, Limerick, Mercy Hospital, Cork and South Infirmary – Victoria University Hospital, Cork.

5.52 Capital projects cannot commence without a letter of approval from the National Director of Estates in the case of construction and equipping projects. In the case of ICT projects, letters of approval are issued by the ICT Programme Management Office. A capital grant claim can only be submitted to HSE HQ Capital Section, on the basis of a matured liability.

5.53 Form As which are used to draw down capital cash must be submitted by close of business on Tuesday evening in order to be cashed on Friday of the same week. The cash is drawn down once a week, on a Friday morning, from the PMG, on the basis of the form As which can be processed for payment that week. All Form As are validated to ensure that the claims are in respect of approved capital projects. In addition, the form As are checked to ensure that the cumulative totals are correct and that they do not exceed the budget allocated to the project.

5.54 Form As are submitted on the basis of matured liability. In the case of goods and services, payment is due when the service has been satisfactorily provided and the supplier has submitted his account and optimum advantage has been
taken of the credit terms permitted by the supplier. Most areas endeavour to draw down the cash in order to have it in time to meet the related payments to suppliers.

5.55 A notable feature of the budget management process concerns minor capital and the potential for confusion within a particular year on what is capital and what is revenue expenditure. For example it has been the case in the past that at a particular point in the year, local managers used their revenue budgets to pay for items which were subsequently capitalised. Steps have been taken to minimise this practice through the provision of specific capital allocations for minor capital.

**Capital Payments Reporting**

**Capital Issues and Returns Reports**

5.56 The monthly capital issues report is prepared on the basis of the cash issued by HSE HQ in the month up to the Friday preceding the due date for submission of the issues report. If there is an extra Friday after the due date for the issues report an estimate is also included for it. The monthly capital returns report is based on the capital cash issued by HSE HQ for the month.

5.57 In general, the capital cash issued by HSE HQ – Capital Section to the Areas should be in agreement with the capital payments issued by the HSE Areas to the suppliers. Differences may arise, mainly due to timing.

5.58 HSE HQ – Capital Section reconciles the capital cash issued by HQ with the capital payments issued by the Areas, as reported by them in the monthly ‘Reconciliation of cumulative capital expenditure with cumulative capital payments per the Vote return’ report. All variances are investigated by the HQ – Capital Section with the Capital Accountants/Administrators in the respective HSE Areas.

**Appropriation Account**

5.59 Capital payments in the Appropriation Account are derived from the capital data included in the Annual Financial Statements as the HSE’s financial systems cannot provide details of capital payments. It is based on the following formula:

- Cumulative Capital Expenditure (HSE funded only)
- Plus: Opening Capital Accruals and Creditors
- Deduct: Opening Prepayments
- Deduct: Closing Capital Accruals and Creditors
- Plus: Closing prepayments

5.60 The above information is provided in respect of each HSE funded capital project, both construction and ICT, by HSE Area. Prepayments mean payments made before the credit terms from the supplier have been fully utilised. At end-2007, capital creditors and accruals amounted to (€102m).
Capital Commitments

5.61 The HSE has a multi-annual capital investment framework which prioritises expenditure on capital projects in line with strategic objectives in its corporate plan and annual service plan. The commitments identifies are in respect of both existing projects and new projects which the HSE anticipates funding in future years from the existing National Development Plan. The Department of Finance letter of sanction states that the level of contractual commitments made in 2007 in respect of 2008 would not exceed 85% of the 2007 allocation for the HSE. Under the General Conditions of Department of Finance sanction for capital expenditure under the rolling five-year envelopes (Appendix 3 of the February 2005 Capital Appraisal Guidelines), the level of contractual commitments made in a particular respect of the second, third, fourth and fifth years of the envelope may not exceed 85%, 75%, 60% and 40% respectively of the first year’s allocation. The HSE confirmed to the Group that it has adhered to this requirement to date.

Implications of the Budget Management Process for Expenditure Control

5.62 The link between expenditure management on an Income and Expenditure basis and cash allocation is always complicated by the fact that every year a volume of creditors and accruals is carried into the year and they have to be funded from the Vote for the current year. In the same way, a volume of creditors and accruals will be brought forward to the following year and will not therefore require a cash payment in the current year. This is illustrated at aggregate level in Appendix 19.

5.63 As will be seen from Appendix 17, the volume of creditors has been growing as would be expected where the annual Voted amount increases year-on-year. Voted expenditure in recent years has been increasing by €1billion a year, so as a consequence the amount of accrued liabilities at the end of the year would also be expected to exceed the level at the end of the previous year. In addition, the precise amount falling due to be paid the following year will depend on a number of factors, for example

- the timing of expenditure through the year – for example if a higher than normal amount of expenditure took place in December, a higher level of bills would be carried over to the following year
- any changes in the credit terms or payment procedures applied to invoices: for example if the average period for processing payments changed by a number of days, that would have an impact on the value of bills carried over to the following year
- the value of accruals arising from the HSE relationship with the voluntary organisations
- the timing of payroll cycles
- year-end procedures, particularly the dates of the last accounts payable run in each area
5.64 The following are examples of expenditure patterns which could impact on the level of accruals carried over the next year:

Grants to Outside Agencies

5.65 The HSE fund a number of service providers who provide services to the public on its behalf. Before entering into such an arrangement, the HSE determines the maximum amount of funding that it proposes to make available in the financial year under the arrangement and the level of service it expects to be provided for that funding. This funding is charged in the year of account to the Income and Expenditure Account at the maximum determined level for the year, although a certain element may not actually be disbursed until the following year. In addition, the hospital or other agency could increase its overdraft during the year or increases its creditors to finance a higher level of service to the public. Some 41 agencies are allowed to have overdrafts. The capacity to increase the overdraft is limited by the HSE to a ceiling of 7 ½ % of its allocation and the capacity to increase the volume of creditors is constrained by the terms of the Prompt Payments Act. Clearly overdraft levels and the volume of creditors can also fall from one year to the next. Any increase in the level of service provided to the public will impact on the cost of maintaining the ELS over the following and future years. This is particularly true where additional staffing resources are put in place to support the higher level of service. End-year overdraft levels for the main agencies funded by the HSE are at Appendix 23.

5.66 The National Treasury Management Agency Review of Treasury Management and Banking Arrangements of the HSE (Section 2.5.8) recommended the "Elimination of the facility for hospitals and agencies to borrow - the cost of this borrowing exceeds the cost of Exchequer funding and has to be paid by subsequent allocations from the Exchequer." To maintain the existing level of services provided by such agencies would require an increase in funding from the exchequer in the year in which the "borrowing facility" (overdraft) is eliminated. This issue is dealt with later in this report.

Implications of exceptional increases in creditors and accruals

5.67 The main concern for public policy is that exceptional increases in creditors and accruals may increase the cost of maintaining the existing level of service and so may require a higher Vote allocation in the following and future years. This extra spending will not impact on the cash budget for the current year but will increase the liabilities or bills carried forward to be paid from the cash budget in the following year. The increase in liabilities carried forward to the next year is apparent only through close examination of the notes appended to the Appropriation Account and the Annual Financial Statements. Indeed, the full implications for the cost of maintaining existing levels of service would require a further breakdown of these notes. In addition, annual increases in the Vote,

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20 This arrangement pre-dates the establishment of the HSE.
new development monies and movements in capital may obscure the underlying position.

5.68 It should be noted that there are significant controls limiting the extent to which creditors can grow: these include the requirement to have a balanced Vote and the requirements to pay all matured liabilities and comply with prompt payments legislation as well. In addition, as noted above, there are limits on the overdrafts that can be incurred by voluntary hospitals and other agencies. Finally, monitoring the monthly profiles of Income and Expenditure budgets by manager, including each Local Health Office, hospital, corporate and the Primary Care Reimbursement Service from the beginning of the year provides the information required to track spending patterns that would give rise to exceptional increases in the level of liabilities carried forward into the following year.

Implications for monitoring cost of maintaining existing level of services

5.69 In any particular year the cost of maintaining the existing level of health services can be influenced by the outturn for the cash payments in the current year by the HSE, the level of net current liabilities carried into the following year by the HSE, the utilisation of overdrafts by voluntary hospitals and other service providing agencies and by changes in the net current liabilities of those voluntary hospitals and agencies.

5.70 The overdraft levels are already capped at 7½ % of the annual allocation. Given that these agencies have non-exchequer sources of income direct controls additional to those relating to the overdraft limit are not practical. Further consideration is given to the overdraft issue in the next chapter – Conclusions and Recommendations. However, the evolution of creditors and accruals should be monitored by the HSE given the reliance of these agencies on Exchequer funding.

5.71 The cash payments by the HSE in the current year are relatively easy to monitor. Only the changes in creditors and accruals (adjusted for current assets and deferred income) may impact on the cost of maintaining the existing level of service. Note 15 to the HSE’s Annual Financial Statement for 2007 is reproduced as Appendix 24, with accruals split between pay and non-pay, and it shows that there are eight items making up the total. The first item “Bank balances” is the total of cheques issued but not yet cashed. The sixth item is income tax and social welfare deductions waiting to be paid over to the Revenue Commissioners and the Department of Social and Family Affairs. The Lottery Grants and sundry creditors are relatively small.

5.72 The remaining three items are large (almost 90% of the total) and changes in their value over the accounting period can impact on the cost of the existing level of services viz non-pay creditors and accruals for pay and non-pay. This is less likely in the case of accruals for pay. The evolution of the two items, non-pay creditors and total accruals, over the three years 2005 to 2007 is set out at Appendix 25. The figure for non-pay creditors represents invoices received but
not yet paid while the accruals for pay and non-pay represents goods and services received but in the case of non-pay not yet invoiced. To better understand accruals, it is necessary to break down the accruals figure between capital and current and to break down the current between pay and grants to agencies. In the case of invoices received but unpaid they should be broken down between current and capital. Finally, it should be noted that notes to the 2007 Appropriation Account for Vote 40 record that at end 2007 matured liabilities amounted to €48.209m and prompt payment interest paid by the HSE in 2007 was €533,567. The evolution of these two figures over the years 2005 to 2007 is set out at Appendix 26.

5.73 An increase in creditors would be expected in any system of accounting where the overall budgets are increasing year on year. The key point is that these balances should be monitored to ensure that they do not grow at a rate higher than the increase in notified allocation year on year. Large movements in trade creditors are of particular concern as these represent actual liabilities which will require payment once the credit terms have matured. Movements in accruals may not impact on the following years ELS to the same extent. If there is a sharp increase, this needs to be investigated in tandem with examining deficits carried forward from year to year. The analysis of both of these should provide the necessary information around the impact on the following years ELS.
Chapter 6

Conclusions and Recommendations

Introduction

6.1 This chapter draws on the preceding chapters to arrive at conclusions and then to make recommendations, including recommendations designed to provide a bridge between the Appropriation Account for Vote 40 and the Annual Financial Statements of the HSE. The objective of the recommendations is to make it easier for all users of these accounts to use both sets of accounts to obtain a better understanding of the performance of the HSE and a better understanding of the cost of maintaining the existing level of service being provided to the public by the HSE.

Conclusions

6.2 Drawing on the work already completed the Group arrived at a number of conclusions. These conclusions also reflect the discussions held with representatives of the Departments of Finance and Health and Children, the Office of the Comptroller and Auditor General and HSE personnel not included as members of the Working Group but who have operational knowledge essential to the work of the Group.

6.3 The Chairman of the Working Group, supported by the secretariat, conducted interviews with people nominated by the Secretary General, Department of Finance, the Chief Executive Officer of the HSE and the Comptroller and Auditor General to obtain a more complete understanding of the issues being considered by the Working Group. In addition, the Secretary General of the Department of Health and Children gave the Group access to all the relevant officials of his Department and to all relevant reports and papers. A list of the people interviewed and a summary of the key points to emerge from these contacts is at Appendix 27.

6.4 The Group’s Terms of Reference (TOR) require it to identify and consider issues arising for the HSE from the requirement to report on both a Vote basis and an Income and expenditure basis and from its relationship with the Departments of Health and Children and Finance, the Comptroller and Auditor General and the Oireachtas. The TOR requires the Group to do this while having regard to the Health Act, 2004, the Comptroller and Auditor General Acts, 1866 to 1998, the Public Financial Procedures and bearing in mind the requirement that cash accounting takes precedence for Exchequer management and control purposes.

6.5 Chapter one of this report outlines the constitutional, parliamentary, legal and administrative framework for financial reporting and public expenditure management as it pertains to the HSE, including an outline of the respective roles and responsibilities of the HSE Board, the Chief Executive Officer, The Minister for Health and Children, the Minister for Finance, the Comptroller and Auditor General and the Oireachtas. This chapter also outlines the specific legal
requirements for the HSE and its CEO to produce an Appropriation Account in respect of Vote 40 and annual Financial Statements prepared in accordance with accounting standards specified by the Minister for Health and Children.

6.6 Chapter one also reviews in some detail the provisions of Sections 20 and 36 of the Health Act, 2004 in relation to the roles of the Chief Executive Officer of the HSE as Accounting Officer for Vote 40 and the requirement to prepare an Appropriation Account and the requirement for the HSE to keep all proper and usual accounts of all monies received or expended by it and in respect of each financial year, prepare annual financial statements (including accounts of income and expenditure and a balance sheet) in such form and in accordance with accounting standards specified by the Minister for Health and Children. These issues are further examined in the chapters dealing with the Appropriation Account (Chapter 2) and the Annual Financial Statements (Chapter 3).

6.7 Chapter two of this report describes the format and content of the Appropriation Accounts prepared in respect of Vote 40, drawing on the accounts for 2005, 2006 and 2007. Chapter three describes the format and content of the annual Income and Expenditure Accounts, Balance Sheets and Cash Flow Statements, drawing on the published Annual Financial Statements for 2005, 2006 and 2007. These chapters also describe the notes attached to the relevant accounts. These two chapters also inform the conclusions and recommendations which follow.

6.8 Chapter four deals in more detail with the legal and structural arrangements between the HSE Board, The HSE Chief Executive Officer, The Minister and Department of Health and Children, The Minister and Department of Finance, the Government, the Dáil and the Oireachtas. This Chapter, drawing on the first three chapters of this report, seeks to clarify these relationships in order to get a shared understanding within the Working Group of how they should work in the circumstances facing the HSE and the Departments of Health and Children and Finance, particularly in so far as they relate to the TOR of the Group.

6.9 The Group took appropriate steps to validate the constitutional and legal statements included in chapters one and four and is accordingly satisfied that they are constitutionally and legally sound.

6.10 Chapter five outlines the Budget Management System operated by the HSE for both current and capital expenditure. It also relates this system to the accounting arrangements being operated by the HSE and how the Budget Management System and the HSE accounting arrangements relate to the HSE Vote and the Annual Financial Statements of the HSE.

The Implications of having to produce an Appropriation Account and AFSs

6.11 The bulk of Vote holders are not required to produce annual financial statements in addition to their Appropriation Account. To meet the need for information on an accruals basis on key areas such as creditors it is now standard practice to attach such notes to Appropriation Accounts. The Appropriation Account for Vote 40 also adheres to this practice.
6.12 In the case of the HSE, the Accounting Officer / CEO reports to a Board and the Board reports to the Minister for Health and Children. In the case of other big Vote holders such as the Departments of Education and Social and Family Affairs, the Accounting Officer / Secretary General for the Vote reports directly to the Minister. In addition the accounting systems inherited by the HSE were designed to operate on the basis of accrual accounts. The implications of this legal requirement and the dual role of Accounting Officer/Chief Executive Officer for the various relationships within the HSE and between the HSE and the broader political and administrative system are teased out in Chapter 4.

Responsibilities and Reporting Relationships

6.13 The Group is also required by its TOR to consider ways to improve understanding of and consistency between the two sets of HSE accounts with a view to improving transparency for Comptroller and Auditor General audit purposes and for a more complete understanding by Ministers Government, the Dáil and Government Departments. The starting point in the annual cycle is the Annual Service Plan and the statement of income and expenditure required to be submitted with that plan by section 31 (12) of the Health Act, 2004.

6.14 Section 31 of the Health Act, 2004 makes it clear that responsibility for adopting the Annual Service Plan and submitting it for approval to the Minister for Health and Children rests with the Board of the HSE. This is consistent with the HSE governance structure provided for in the same act, where the Chief Executive Officer reports to the Board and the Board reports to the Minister for Health and Children. In line with that structure, primary responsibility for delivering the National Service Plan rests with the Board of the HSE. Section 33 of the Health Act, 2004 makes provision for this by providing

*The Executive shall manage health and personal social services indicated in an approved service plan so as to ensure that the services are delivered in accordance with the plan*

6.15 Section 31 (6) and (7) of the Health Act, 2004 makes provision for a situation where the HSE board fails to adopt an Annual Service Plan and fails to submit it for approval to the Minister for Health and Children, Section 31 (6) provides

*If the Executive fails to submit a service plan in accordance with subsection (1) or with a direction under subsection (5), the Minister may, by written direction, require the Chief Executive Officer to prepare and submit a service plan to the minister within 10 days after the date on which the Minister issues the direction under this subsection*

6.16 Section 31 (7) defines the status of this plan when it provides

*A service plan submitted by the chief executive officer under subsection 6 is deemed to have been adopted and submitted by the Executive*
6.17 Section 31 (12) of the Health Act, 2004 provides that the HSE shall submit to the Minister with the service plan a the statement of income and expenditure which must be consistent with Vote 40 but the act does not specify any particular form of account and is silent regarding whether cash or accruals are to be used. Neither does the act provide guidance regarding the meaning of “consistent” in this case. However, the Minister for Health and Children has specified under Section 36 (2) of the Health Act, 2004 the accounting standards to be used when preparing the Annual Financial Statements of the HSE. Section 10 of the same Act allows the Minister specify the form of the Estimated Income and Expenditure Statement required by section 31 (12). In the absence of such a specification, the onus is on the HSE to justify not using the accounting standards specified by the Minister under Section 36 (2) when preparing the estimate of income and expenditure required by Section 31 (12).

6.18 More generally, the Group agree that Vote 40 and the statutory requirement for the HSE and the CEO/Accounting Officer to produce both Annual Financial Statements and an Appropriation Account has to be seen in the wider context of the granting of supply by Dáil Éireann and the need to account to the Dáil for that money. The framework of accountability to the Dáil is well established by legislation and practice. In the case of the HSE this framework also includes the HSE Corporate Plan produced under sections 28 – 30 of the Health Act, 2004 and the Annual Service Plan produced under section 31 of the same Act. Accounts are audited by the Comptroller and Auditor General and he reports to the Dáil Committee of Public Accounts (PAC), which in turn reports to the full Dáil. It is necessary to be conscious that the PAC and the Dáil primarily operate within a Vote accounting structure and therefore there is a need to minimise the difficulty in relating one set of accounts to the other. This requirement also exists in the case of the Ministers and Departments of Health and Children and Finance.

6.19 The principle of relating the Appropriation Account for Vote 40 to the Annual Financial Statements of the HSE is well established by the HSE itself. For example, in the Statement on the System of Internal Financial Control in the 2007 Annual Report of the HSE, the Chairman of the HSE points to the fact that the HSE Board has relied on the statement made by the CEO as Accounting Officer in the 2007 Appropriation Account.

6.20 On the question of relating one set of accounts to the other the Working Group concluded

- there is a need to ensure that the dual responsibility of the HSE to report on a Vote Accounting basis is appropriately reflected in the HSE management structure and in the HSE financial accounting system;

- there is a need to minimise the risk that having two sets of accounts could create confusion for readers seeking to understand the financial performance of the HSE through relating information from one set of accounts to information obtained from the other set of accounts;

- the accounting systems inherited by the HSE are no longer fit for purpose, in that they were not designed to cater for the current HSE structure or for a system
requiring reports both on a Vote accounting basis and on an accruals basis and it is unable to provide the full range of management information now required or to support the outline Vote structure attached as Appendix 4 to Vote 40 in the 2008 Revised Estimates Volume;

- information required to determine the cost of maintaining the existing level of services and to more effectively monitor the Vote could be further developed;

- the Board of the HSE has a responsibility to provide new services for which the Dáil has made specific provision in Vote 40; where there is a proposal to use such money for any other purpose, there is a responsibility on the HSE Board, the Department of Health and Children and the Department of Finance to bring this proposal to the attention of Ministers as early as possible in the year and while there is still time to adopt alternative solutions;

- there is a need for greater clarity regarding the element of HSE income and expenditure financed from other Votes, to allow for easier comparison between the Appropriation Account and the Annual Financial Statements;

- the separate information notes on creditors and accruals in the Appropriation Account and the Annual Financial Statements need to be reviewed with a view to making it easier to relate each to the other21;

- there could be greater clarity regarding the deficits in the income and expenditure accounts and the accumulating negative reserves in the balance sheet;

- there is a need for the Estimated Statement of Income and Expenditure, required under section 31 (12) of the Health Act, 2004, submitted to the Minister for Health and Children with the annual service plan to relate the total gross Vote to the key outputs included in the plan specified by care programme;

- the Estimated Statement of Income and Expenditure, prepared under section 31 (12) of the Health Act, 2004, needs to provide information on opening and estimated closing creditors and accruals to provide a bridge between the Vote and expenditure on an accruals basis;

- the Estimated Statement of Income and Expenditure required under section 31 (12) of the Health Act, 2004 should include information to clarify income and expenditure from sources other than Vote 40, including from other Departments;

- the format of relevant sections of the financial information submitted with the service plan should be coherent with other constituent elements of the accountability framework for the health services. In particular, a programme categorisation of the previous year's estimated outturn and proposed expenditure (with any additional provision for new initiatives clearly identified) should be supplied. This categorisation should facilitate alignment with the outline Vote structure in the Revised Estimates Volume for 2008 (including any revisions to

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21 Appendix 24 relates the figures for creditors in the AFS to those in the Appropriation Account.
same), the Annual Output Statement for the Health Group of Votes and relevant sections of the HSE Annual Report and Corporate Plan, and

- to provide the necessary clarity, the format of the Estimated Income and Expenditure Statement, including the requirements outlined above, should be specified to the HSE by the Minister for Health and Children under Section 10 of the Health Act, 2004.

6.21 The Group is also required by its TOR to consider ways to investigate the necessity or otherwise of setting a defined expenditure level for the HSE each year. In addressing this question the Group took into account the requirement in its TOR to bear in mind the requirement that cash accounting takes precedence for Exchequer management and control purposes and the views of the Departments of Health and Children and Finance, the Comptroller and Auditor General and the budget and accounting systems operating in the HSE.

6.22 Up to this point, the setting of a defined expenditure level has applied only to non-Vote holders such as the old Health Boards and now to the voluntary hospitals and other agencies. Given that the Dáil operates a cash accounting system when it votes money to the HSE, there is a need to ensure that there is no lack of clarity regarding the precedence enjoyed by Vote accounting. At the same time, the Health Act, 2004 is an Oireachtas creation and consequently there can be no doubt that the HSE is required to report to the Dáil on both a Vote accounting and on an accruals basis. Furthermore, the 2004 Act does not state that one form of reporting is less or more important than the other.

6.23 The setting of a defined expenditure level on an Income and Expenditure basis for the HSE would not alter the fact that the dominant control in a Vote situation is the amount of money Voted for the service by the Dáil. Putting two systems in place would put at risk the clear acceptance in the HSE and elsewhere that the cash control is dominant. In terms of monitoring the Vote during the year, expenditure levels measured on an accruals basis must take second place to monitoring the Vote. Monitoring the evolution of debtors, creditors and accruals can bridge any gap that exits, particularly in relation to tracking the cost of maintaining the existing level of public services. To the extent that the tension between expenditure on an accruals basis and cash budgeting is an issue, it is already subject to two controls. The first of these is the Prompt Payments Act and the second is the requirement in the Public Financial Procedures to meet mature liabilities even where that would lead to an excess Vote. Both these items are reported upon in notes to the Appropriation Account but there is a public policy case for more frequent monitoring.

6.24 Taking these factors into account the Group concluded that the requirements of the Oireachtas, the Dáil, the Government, the Departments of Health and Children and Finance and the Comptroller and Auditor General would be best served by giving priority to minimising the difficulty in relating information from one form of accounts to the other. In this way, the information supplied to all the parties outlined above as well as to the general reader would be maximised. In addition, there is no demand from these parties for the introduction of a system of determining expenditure levels for the HSE. In the case of the Comptroller and
Auditor General’s Office they expressed the view that if such a system were to be introduced, the defined expenditure level should not be set by the HSE itself but given to it at the start of the year.

6.25 While there is no demand for the introduction of a defined expenditure system for the HSE, there is a demand for greater transparency between the Appropriation Account and the Annual Financial Statements, including the notes to both accounts. From a public policy point of view this information is required to more fully monitor the evolving budgetary situation, to better understand the cost of maintaining the existing level of service and to better understand the location of pressure points within the budget. This requirement can be best met by providing the information and clarifications required to better understand the relationship between both sets of accounts and to maximise the value of the two sets combined. The recommendations that follow provide the details on what is required to provide the necessary information and clarifications. In the circumstances the Group is not convinced that the introduction of expenditure determination for the HSE is advisable.

6.26 The Group noted the position regarding the December, 2006 Review of Treasury Management and Banking Arrangements of the HSE was carried out by the National Treasury Management Agency (NTMA) at the request of the Department of Finance. The review made a number of recommendations, one of which was to eliminate the facility for hospitals and agencies to borrow because the cost of this borrowing exceeds the cost of Exchequer funding and has to be paid by subsequent allocations from the Exchequer. Movements in these overdraft levels can also impact on the cost of maintaining the existing level of service.

6.27 Implementation of these recommendations is the responsibility of the HSE. The HSE has welcomed the recommendations and it has set up a Financial Services Steering Group to implement the recommendations in the review. The HSE has indicated that some of the findings and recommendations could be dealt with as a matter of priority but that others would take longer. Regarding the recommendation to eliminate overdraft facilities in voluntary hospitals and other agencies, the value of these overdrafts at end-2007 exceeded €100m. The HSE is examining the legal implications of this recommendation. Given the existing budgetary pressures the elimination of these overdrafts, even if there is no legal barrier, may not be a priority. In the circumstances a decision to freeze the cash level of the overdrafts might be a useful first step. The cash level to be used should be agreed between the HSE and the Departments of Health and Children and Finance, as any change in the overdraft ceiling could impact on the quantum of service received.

6.28 With regard to the need for an integrated national financial system that would provide standardised accounting and reporting across all units of the HSE, the NTMA review recommended that such a system be implemented with the functionality to support a central treasury unit and single bank account, and which is capable of meeting the requirements for Income and Expenditure reporting, Vote accounting and budgetary control. The Group noted that in a July, 2008 letter from the Department of Finance to the Dáil Committee of Public Accounts,
the Department of Finance reported that plans are in train in the HSE to roll out a National Financial System by 2011.\footnote{See Chapter 2, paragraphs 2.60 – 2.72}

6.29 Recommendations

(1) The estimated statement of income and expenditure required by Section 31 (12) of the Health Act, 2004 to be submitted to the Minister for Health and Children with the Annual Service Plan should be further developed to include the following information:

- the individual elements making up the total Vote amount should add up to the gross Voted amount (including Appropriations-in-aid), with current and capital expenditure shown separately; and current expenditure broken down by Local Health Office, Hospital and demand led scheme, and by care programme.

- the value of closing debtors, creditors and accruals broken down between current and capital, with the current broken down between pay and non-pay, with the non-pay broken down between agencies and others, plus an estimate of the closing debtors, creditors and accruals under each of the same headings;

- the current budget for new services/new initiatives to be shown separately;

- the value of expenditure to be financed from other Votes, showing current and capital separately; and

- the form of the estimated Income and expenditure statement required by Section 31 (12) of the Health Act, 2004, including the information outlined above, should be specified by the Minister for Health and Children under Section 10 of the Health Act, 2004.

(2) the format of relevant sections of the financial information submitted with the service plan should be coherent with other constituent elements of the accountability framework for the health services. In particular, a programme categorisation of the previous year's estimated outturn and proposed expenditure (with any additional provision for new initiatives clearly identified) should be supplied. This categorisation should facilitate alignment with the outline Vote structure in the Revised Estimates Volume for 2008 (including any revisions to same), the Annual Output Statement for the Health Group of Votes and relevant sections of the HSE Annual Report and Corporate Plan.

(3) Provide monthly profiles using the headings from recommendations (1) and (2) and report monthly on them, together with the value of outstanding matured liabilities and Prompt Payment Act penalty interest, in the monthly Performance Monitoring Report (PMR);
(4) To the extent that the existing accounting systems cannot fully support the requirements at recommendations (1), (2) and (3), including the requirement to report in the required detail at month and year-end, the IT solution required to correct this should be specified and given a high priority, with agreed time lines where all the modifications cannot be implemented at an early date;

(5) Provide a general note on the income side of the Income and Expenditure Accounts (Revenue and Capital) reconciling the Appropriations-in-Aid as shown in the Appropriation Account and the income from sources other than the Exchequer revenue grant and Exchequer capital funding, with a view to explaining the non-Vote HSE income;

(6) Expand the notes on creditors in the Annual Financial Statements (AFS) to show separately capital creditors and capital accruals and revenue creditors and accruals and in the case of revenue accruals show separately accruals for pay and for agencies, including voluntary hospitals;

(7) The creditor figure in the note to the Annual Financial Statements (AFS) on creditors up to one year should have an asterisk explaining how it relates to the creditor figure in Note 3 to the Appropriation Account\(^{23}\) and Note 3 itself should be developed to show separately the figure for accruals and to relate it to the gross total for accruals on the face of the Appropriation Account;

(8) The level and annual increase in the negative revenue and capital reserves shown in the Annual Financial Statements (AFS) should be explained by a note relating it to the change in creditors, deferred income, current assets and investments\(^{24}\);

\(^{23}\) See Appendix 24 for example.

\(^{24}\) Using as an example the 2007 Annual Financial Statements:

<table>
<thead>
<tr>
<th></th>
<th>2007 €,000</th>
<th>2006 €,000</th>
<th>Change €,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital Reserve</td>
<td>(262,239)</td>
<td>(189,830)</td>
<td>(72,409)</td>
</tr>
<tr>
<td>Revenues Reserve</td>
<td>(904,879)</td>
<td>(863,132)</td>
<td>(41,747)</td>
</tr>
<tr>
<td>Total Capital &amp; Revenue</td>
<td>(1,167,118)</td>
<td>(1,052,962)</td>
<td>(114,156)</td>
</tr>
<tr>
<td>Creditors up to 1 year</td>
<td>(1,494,481)</td>
<td>(1,392,092)</td>
<td>(162,389)</td>
</tr>
<tr>
<td>Creditors over 1 year</td>
<td>(59,762)</td>
<td>(60,126)</td>
<td>364</td>
</tr>
<tr>
<td>Total Creditors</td>
<td>(1,554,243)</td>
<td>(1,392,218)</td>
<td>(162,025)</td>
</tr>
<tr>
<td>Deferred Income</td>
<td>(5,276)</td>
<td>(14,568)</td>
<td>9,292</td>
</tr>
<tr>
<td>Total Liabilities</td>
<td>(1,559,519)</td>
<td>(1,406,786)</td>
<td>(152,733)</td>
</tr>
<tr>
<td>Less current assets &amp; Investments</td>
<td>392,401</td>
<td>353,824</td>
<td>38,577</td>
</tr>
<tr>
<td></td>
<td>(1,167,118)</td>
<td>(1,052,962)</td>
<td>(114,156)</td>
</tr>
</tbody>
</table>
(9) Consider the scope for freezing the cash value of overdraft levels at voluntary hospitals and agencies, including the impact on service levels, with the actual overdraft levels being monitored on a regular basis by the HSE and the Department of Health and Children²⁵.

(10) The Performance Monitoring Report (PMR) should be further developed to provide more information on the steps needed to correct reported variances from profile/budget; and

(11) Where the Performance Monitoring Report (PMR) indicates that expenditure is running ahead of budget, the report should indicate the steps that are being taken to return spending within budget and where that proposal involves using expenditure Voted for a new service or capital, that proposal should be brought to the Ministers for Health and Children and Finance for early decision.

(12) Where the subsidiary undertakings, listed in Note 26 to the AFS have borrowing powers the exercise of those powers should formally be made subject to the sanction of the Minister for Health and Children with the consent of the Minister for Finance.²⁶

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²⁵ See Chapter 5, paragraph 5.70 regarding monitoring by the HSE of creditors and accruals in Agencies and Voluntary Hospitals.

²⁶ The accounts of these subsidiary undertakings are not consolidated in the 2007 AFSs of the HSE on the basis that they were not material.
Appendix 1

Terms of Reference

Having regard to the requirements of the Health Act 2004, the Comptroller and Auditor General Acts 1886 to 1998 and Public Financial Procedures, and bearing in mind the requirement that cash accounting takes precedence for Exchequer management and control purposes, the Study should:

• review, in the context of sections 20 and 36 of the Health Act 2004, the annual Income and Expenditure Accounts and Appropriation Accounts prepared to date in respect of the Health Service Executive (HSE) and Vote 40;

• describe the format and content of:
  - annual income and expenditure accounts operated by the HSE
  - annual Appropriation Accounts of the HSE in the light of the structure of Vote 40 for the HSE;

• identify and consider issues arising from the combined operation of the two accounting requirements for the HSE, the Department of Health and Children, the Department of Finance, the Comptroller and Auditor General and the Oireachtas;

• consider ways to improve understanding of and consistency between the two sets of HSE Accounts with a view to improving transparency for Comptroller and Auditor General audit of, and Departmental and Oireachtas consideration of, the accounts;

• investigate the necessity or otherwise of setting a defined expenditure level for the HSE each year;

• examine the implications of such a control mechanism for the Estimate process, HSE budget setting and associated reporting for Income and Expenditure purposes; and

• make recommendations accordingly

The Study will be overseen by a working group chaired by Mr Tom Considine with representatives from the Department of Health and Children, the Department of Finance and the HSE.
Appendix 2

Membership of the Working Group

Mr. Tom Considine (Chair)

Department of Health and Children\textsuperscript{27}
Mr. Dermot Smyth
Mr. Jim Breslin\textsuperscript{28}
Mr. David Moloney

Department of Finance
Mr. Tom Heffernan

HSE
Mr. Liam Woods
Mr. Paddy McDonald

\textsuperscript{27} Mr. Dermot Magan was a member up to his retirement on 3\textsuperscript{rd} April 2008
\textsuperscript{28} Mr. Tom Mooney was a member up to his retirement on 4\textsuperscript{th} April 2008 and was replaced by Mr. Jim Breslin.
Appendix 3

Committees established by the Board of the HSE 29

Audit Committee

The Audit Committee is one of the Committees established by the Board. The Chairman of the Board is an ex-officio member of the committee. The Chairperson of the committee is a Board member, nominated by the Board. The Committee meets in private session and the CEO must ensure that any member of management or staff required to assist the committee will be made available to it and provide any information required.

The Internal Auditor reports to the Audit Committee and attends its meetings. The Chairperson of the Audit Committee reports on its deliberations to the Board of the HSE. In addition, the Audit Committee meets with the Comptroller and Auditor General on a regular basis to deal with items of mutual concern and/or interest particularly the Annual Financial Statements, and the effectiveness of governance and internal controls.

Risk Committee

The Risk Committee is also a committee set up by the Board. The Chairperson of the committee is a Board member, nominated by the Board. The committee’s principal focus is on assisting the Board to fulfil its duties in relation to non-financial risks. In particular it reviews the processes related to the identification, measurement, assessment and management of risk in the HSE and promotes a risk management culture throughout the health system.

While both the Audit and Risk committees have an involvement in risk management and internal control, focusing on financial and non-financial risks respectively, executive responsibility for risk and controls rests with management.

Article 4

29 Information provided by the HSE
Appendix 4

Statement by Accounting Officers on Internal Financial Control

Responsibility for system of Internal Financial Control

As Accounting Officer I acknowledge my responsibility for ensuring that an effective system of internal financial control is maintained and operated by the HSE. This responsibility is exercised in the context of the resources available to me and my other obligations as Accounting Officer. Also, any system of internal financial control can provide only reasonable and not absolute assurance that assets are safeguarded, transactions authorised and properly recorded, and that material errors or irregularities are either prevented or would be detected in a timely manner. Maintaining the system of internal financial controls is a continuous process and the system and its effectiveness are kept under ongoing review. A review of the effectiveness of the internal control system within the HSE was completed in 2006.

The position in regard to the financial control environment, the framework of administrative procedures, management reporting and internal audit is as follows:

Financial Control Environment

I confirm that a control environment containing the following elements is in place:

- financial responsibilities have been assigned at management level with corresponding accountability
- reporting arrangements have been established at all levels where responsibility for financial management has been assigned
- formal procedures have been established for reporting significant control failures and ensuring appropriate corrective action
- there is an audit committee to advise me in discharging my responsibilities for the internal financial control system.

Administrative Controls and Management Reporting

I confirm that a framework of administrative procedures and regular management reporting is in place including segregation of duties and a system of delegation and accountability and, in particular, that

- there is an appropriate budgeting system with an annual budget which is kept under review by senior management
- there are regular reviews by senior management of periodic and annual financial reports which indicate financial performance against forecasts
- a risk management system operates within the HSE
- there are systems aimed at ensuring the security of the ICT systems
- there are appropriate capital investment control guidelines and formal project management disciplines.

30 Source: Actual statement from Audited 2006 Appropriation Accounts for Vote 40.
Appendix 4

Internal Audit

I confirm that the HSE has an internal audit function with appropriately trained personnel, which operates in accordance with a written charter which I have approved. Its work is informed by analysis of the financial risks to which the HSE is exposed and its annual internal audit plans, approved by me, are based on this analysis. These plans aim to cover the key controls on a rolling basis over a reasonable period. The internal audit function is reviewed periodically by me and the Audit Committee. I have put procedures in place to ensure that the reports of the internal audit function are followed up.

PROFESSOR BRENDAN DRUMM
Accounting Officer
HEALTH SERVICE EXECUTIVE
26 March 2007

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NOTE: In note 17 to the 2007 Appropriation Accounts the Accounting Officer for the HSE, Vote 40, states :-

“A Statement of Internal Financial Controls in the standard format for the year ended 31 December, 2007, has been submitted with this Account to the Comptroller and Auditor General.”

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Appendix 5

Terms of Reference of the Committee of Public Accounts\(^{31}\)

(1) There shall stand established, following the reassembly of the Dáil subsequent to a General Election, a Standing Committee, to be known as the Committee of Public Accounts, to examine and report to the Dáil upon—

(a) The accounts showing the appropriation of the sums granted by the Dáil to meet the public expenditure and such other accounts as they see fit (not being accounts of persons included in the Second Schedule of the Comptroller and Auditor General (Amendment) Act, 1993) which are audited by the Comptroller and Auditor General and presented to the Dáil, together with any reports by the Comptroller and Auditor General thereon: Provided that in relation to accounts other than Appropriation Accounts, only accounts for a financial year beginning not earlier than 1 January 1994, shall be examined by the Committee;

(b) The Comptroller and Auditor General’s reports on his or her examinations of economy, efficiency, effectiveness evaluation systems, procedures and practices; and

(c) Other reports carried out by the Comptroller and Auditor General under the Act.

(2) The Committee may suggest alterations and improvements in the form of the Estimates submitted to the Dáil.

(3) The Committee may proceed with its examination of an account or a report of the Comptroller and Auditor General at any time after that account or report is presented to Dáil Éireann.

(4) The Committee shall have the following powers:

(a) Power to send for persons, papers and records as defined in Standing Order No. 85;

(b) Power to take oral and written evidence as defined in Standing Order No. 83(1);

(c) Power to appoint sub-committees as defined in Standing Order No. 83(3);

(d) Power to engage consultants as defined in Standing Order No. 83(8);

(e) Power to travel as defined in Standing Order No. 83(9).

\(^{31}\) Source: Standing Order 158(i) of Dáil Éireann (September 2008)
Appendix 5

(5) Every report which the Committee proposes to make shall, on adoption by the Committee, be laid before the Dáil forthwith whereupon the Committee shall be empowered to print and publish such report together with such related documents as it thinks fit.

(6) The Committee shall present an annual progress report to Dáil Éireann on its activities and plans.

(7) The Committee shall refrain from—

(a) Enquiring into in public session, or publishing, confidential information regarding the activities and plans of a Government Department or Office, or of a body which is subject to audit, examination or inspection by the Comptroller and Auditor General, if so requested either by a member of the Government or the body concerned; and

(b) Enquiring into the merits of a policy or policies of the Government or a member of the Government or the merits of the objectives of such policies.

(8) The Committee may, without prejudice to the independence of the Comptroller and Auditor General in determining the work to be carried out by his or her Office or the manner in which it is carried out, in private communication, make such suggestions to the Comptroller and Auditor General regarding that work as it sees fit.

(9) The Committee shall consist of twelve members, none of whom shall be a member of the Government or a Minister of State, and four of whom shall constitute a quorum. The Committee and any sub-committee which it may appoint shall be constituted so as to be impartially representative of the Dáil.
Appendix 6

Terms of Reference of the Select Committee on Health32

Dáil Éireann on 23 October 2007 (and 25 October 2007*) ordered:

“(1) (a) That a Select Committee, which shall be called the Select Committee on Health and Children consisting of 13* members of Dáil Éireann (of whom 4 shall constitute a quorum), be appointed to consider –

(ii) such Bills the statute law in respect of which is dealt with by the Department of Health and Children;

(ii) such Estimates for Public Services within the aegis of the Department of Health and Children;

(iii) such proposals contained in any motion, including any motion within the meaning of Standing Order 159, concerning the approval by Dáil Éireann of the terms of international agreements involving a charge on public funds; and

(iv) such other matters

as shall be referred to it by Dáil Éireann from time to time;

(v) Annual Output Statements produced by the Department of Health and Children; and

(vi) such Value for Money and Policy Reviews conducted and commissioned by the Department of Health and Children as it may select.

(b) For the purpose of its consideration of matters under paragraphs (1)(a)(i), (iii), (iv), (v) and (vi) above, the Select Committee shall have the powers defined in Standing Order 83(1), (2) and (3).

I For the avoidance of doubt, by virtue of his or her ex officio membership of the Select Committee in accordance with Standing Order 92(1), the Minister for Health and Children (or a Minister or Minister of State nominated in his or her stead) shall be entitled to vote.

(iii) The Select Committee shall be joined with a Select Committee to be appointed by Seanad Éireann to form the Joint Committee on Health and Children to consider –

32 Source: Clerk to the Committee (March 2008)
Appendix 6

(i) such public affairs administered by the Department of Health and Children as it may select, including, in respect of Government policy, bodies under the aegis of that Department;

(iv) such matters of policy, including EU related matters, for which the Minister for Health and Children is officially responsible as it may select;

(v) such matters across Departments which come within the remits of the Minister of State with special responsibility for Children, the Minister of State with special responsibility for Older People and the Minister of State with special responsibility for Disability Issues and Mental Health (excluding Discrimination) as it may select;

Provided that members of other relevant Joint Committees shall be afforded the opportunity to participate in the consideration of matters within this remit;

(vi) such related policy issues as it may select concerning bodies which are partly or wholly funded by the State or which are established or appointed by Members of the Government or by the Oireachtas;

(vii) such Statutory Instruments made by the Minister for Health and Children and laid before both Houses of the Oireachtas as it may select;

(viii) such proposals for EU legislation and related policy issues as may be referred to it from time to time, in accordance with Standing Order 83(4);

(ix) the strategy statement laid before each House of the Oireachtas by the Minister for Health and Children pursuant to section 5(2) of the Public Service Management Act 1997, and for which the Joint Committee is authorised for the purposes of section 10 of that Act;

(x) such annual reports or annual reports and accounts, required by law and laid before either or both Houses of the Oireachtas, of bodies specified in paragraphs 2(i) and (iv), and the overall operational results, statements of strategy and corporate plans of these bodies, as it may select;
Appendix 6

Provided that the Joint Committee shall not, at any time, consider any matter relating to such a body which is, which has been, or which is, at that time, proposed to be considered by the Committee of Public Accounts pursuant to the Orders of Reference of that Committee and/or the Comptroller and Auditor General (Amendment) Act 1993;

Provided further that the Joint Committee shall refrain from inquiring into in public session, or publishing confidential information regarding, any such matter if so requested either by the body concerned or by the Minister for Health and Children; and

(xi) such other matters as may be jointly referred to it from time to time by both Houses of the Oireachtas,

and shall report thereon to both Houses of the Oireachtas.

(3) The Joint Committee shall have the power to require that the Minister for Health and Children (or a Minister or Minister of State nominated in his or her stead) shall attend before the Joint Committee and provide, in private session if so desired by the Minister or Minister of State, oral briefings in advance of EU Council meetings to enable the Joint Committee to make known its views.

(4) The quorum of the Joint Committee shall be five, of whom at least one shall be a member of Dáil Éireann and one a member of Seanad Éireann.

(5) The Joint Committee shall have the powers defined in Standing Order 83(1) to (9) inclusive.

(6) The Chairman of the Joint Committee, who shall be a member of Dáil Éireann, shall also be Chairman of the Select Committee.”
Appendix 7

Revised Vote Structure for HSE included as Appendix 4 to 2008 REV

In order to improve accountability and transparency in the HSE in regard to the use of Voted moneys a new Vote structure along the following lines will be introduced for Vote 40 as soon as possible. The new Vote structure is designed primarily to ensure that current expenditure will be counted for on the basis of the service programmes in the HSE’s service plan rather than on a regional basis as at present. The HSE will be required as a matter of priority to make the necessary changes to their financial management systems to enable Vote accounting to be introduced on this basis.

40

HEALTH SERVICE EXECUTIVE

I. Estimate of the amount required in the year ending 31 December 2008 for the salaries and expenses of the Health Service Executive and certain other services administered by the Executive, including miscellaneous grants.

€’000,000

II. Subheads under which this Vote will be accounted for by the Health Service Executive.

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<tr>
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<tbody>
<tr>
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<td>Current</td>
<td>Capital</td>
<td>Total</td>
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<td></td>
<td>€000</td>
<td>€000</td>
<td>€000</td>
</tr>
<tr>
<td>A Corporate and Shared Services</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>A1 Corporate CEO</td>
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<td></td>
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<tr>
<td>A2 Human Resources</td>
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<tr>
<td>A3 Corporate Estates</td>
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<tr>
<td>A4 Corporate ICT</td>
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<td>A5 Corporate Services</td>
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<td>A6 Corporate Procurement</td>
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<td>A7 National Shared Services</td>
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<tr>
<td>A8 Local Support Services</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>A9 Office of National Director Hospitals</td>
<td>-</td>
<td></td>
<td></td>
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<tr>
<td>A10 PCCC Corporate</td>
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</tr>
<tr>
<td>A11 Population Health</td>
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<tr>
<td>A12 Travel &amp; Subsistence</td>
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<td>A13 Training</td>
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<td>A14 Value for Money and Policy Reviews</td>
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<tr>
<td></td>
<td>Subtotal</td>
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<tr>
<td>B National Hospital Office</td>
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<td>C. Primary, Community and Continuing Care</td>
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</tr>
<tr>
<td>C1 Acute</td>
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<tr>
<td>C2 Children, Adolescents and Family</td>
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<td>C3 Disability Services</td>
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<td>C4 Mental Health</td>
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<tr>
<td>C5 Multi Care Group</td>
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<td>C6 Older Persons</td>
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<td>C7 Palliative Care and Chronic Illness</td>
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<td>C8 Primary Care</td>
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<tr>
<td>C9 Economic and Social Disadvantaged and Disability (Dormant Accounts) Fund</td>
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<td></td>
<td>Subtotal</td>
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108
### Special Accounts

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<tbody>
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<td><strong>D</strong> SPECIAL ACCOUNTS</td>
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<td>D1</td>
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<tr>
<td>PAYMENT TO A SPECIAL ACCOUNT ESTABLISHED UNDER SECTION 13 OF THE HEALTH (REPAYMENT SCHEME) ACT 2006</td>
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<tr>
<td>D2</td>
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<td>HOSPITAL IN-PATIENT, OUT-PATIENT AND COUNSELLING SERVICES FOR PERSONS WITH HEPATITIS C FROM THE USE OF IMMUNOGLOBULIN ANTI-D AND THE PROVISION OF SERVICES UNDER THE HEALTH (AMENDMENT) ACT 1996</td>
<td>-</td>
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<td>D3</td>
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Subtotal :-

Formerly Subheads B12, 14 and 15

### Assistance to other agencies

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<tr>
<td></td>
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<td>Total</td>
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<tr>
<td><strong>E</strong> Assistance to other agencies</td>
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<tr>
<td>E1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Grants in respect of certain of certain other health bodies including voluntary and joint board hospitals</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>E2</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Health Agencies and other similar agencies Part funded by the National Lottery)</td>
<td>-</td>
<td>-</td>
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Subtotal :-

Formerly subheads B9 and B11

### Capital Services

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<tr>
<td></td>
<td>Current</td>
<td>Capital</td>
<td>Total</td>
</tr>
<tr>
<td><strong>F.1</strong> BUILDING, EQUIPPING AND FURNISHING OF HEALTH FACILITIES AND OF HIGHER EDUCATION FACILITIES IN RESPECT OF THE PRE-REGISTRATION NURSING DEGREE PROGRAMME</td>
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<td>-</td>
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<tr>
<td><strong>F.2</strong> BUILDING, EQUIPPING AND FURNISHING OF HEALTH FACILITIES (PART FUNDED BY NATIONAL LOTTERY)</td>
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<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>F.3</strong> INFORMATION SYSTEMS AND RELATED SERVICES FOR HEALTH AGENCIES</td>
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<tr>
<td><strong>F.4</strong> INFORMATION SOCIETY - INITIATIVES IN THE HEALTH SECTOR, INCLUDING THE MEDICAL CARD SERVICES SCHEME</td>
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Subtotal :-

Gross Total :-

Deduct :-

**F.** APPROPRIATIONS-IN-AID

Net Total :-
Appendix 8

Sequence of Notes included in the Appropriation Accounts

1. Exceptions to General Accounting Policies
2. Operating Cost Statement
3. Statement of Assets and Liabilities
4. Statement of Capital Assets
5. Statement of Capital Assets under development
6. Net Liability to the Exchequer
7. Extra Receipts payable to the Exchequer
8. Explanation of the causes of major variations
9. Appropriations-in-Aid
10. Commitments
   (a) Global figure for Commitments likely to materialise in subsequent year(s)
   (b) Multi-annual capital commitments
11. Matured Liabilities outstanding (if any) at year-end
12. Extra Remuneration
13. Miscellaneous items – write offs, explanatory notes, etc.
14. EU Funding (where appropriate)
15. Commissions and Inquiries
16. Contingent liability
17. Lottery Funding
18. Statement of Loans
19. Miscellaneous accounts – Grant-in-Aid funds, etc. (in linear format)
20. Stocks
21. Due to the State
22. Statement of Internal Control

33 Source: Based on Audited Appropriation Accounts, 2005
Appendix 9

Reconciliation of Appropriation Account to Annual Financial Statements (AFS) 34

Section 36(2) of the Health Act, 2004 requires the Health Service Executive to prepare Annual Financial Statements (AFS) in such a form as the Minister for Health and Children may direct and Section 36 (3) requires that these accounts be prepared in accordance with the accounting standards specified by the Minister.

The AFS are prepared on an income and expenditure basis. That is all income relating to the period is credited, whether actually received and all expenditure relating to the period both actual and accrued is debited. The balance on the account shows the excess of income over expenditure or vice versa.

The published Annual Financial Statements are compiled by consolidating 18 individual financial statements from each of the former Health Boards and streamlined agencies, each of which are prepared from the legacy financial systems in place in each area.

This consolidation process incorporates a validation of the 18 individual AFS and the elimination of interagency balances. The following Table shows how the figures from the Annual Financial Statements are adjusted to provide Net Vote Expenditure as per Vote 40.

<table>
<thead>
<tr>
<th>Reconciliation of AFS Expenditure to Vote Expenditure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue Expenditure per Financial Statements</td>
</tr>
<tr>
<td>Capital Expenditure per Financial Statements</td>
</tr>
<tr>
<td><strong>Total Expenditure per Financial Statements</strong></td>
</tr>
</tbody>
</table>

- Less Expenditure met from other Income -2,419,721
- Plus Increase in Stocks 23,545
- Plus Increase in Debtors 16,171
- Less Decrease in PMG and Net Liability to the Exchequer -46,075
- Plus Increase in Bank Balances 7,360
- Less Increase in Creditors -85,388
- Less Increase in Other Reserves -92
- Plus Reduction in Deferred Income 590

Net Vote Expenditure as per Vote 40 9,991,842

The principal of the above calculation is that expenditure recorded in the Financial Statements must be adjusted for non-cash movements to arrive at the figure for net Voted expenditure.

34 Extract from paper prepared by HSE, using 2006 figures, for the Audit Committee of the HSE (May 2007)
Appendix 10

Financial Systems inherited by the HSE

Background

The current configuration of financial systems inherited by the HSE consist of the following:

<table>
<thead>
<tr>
<th>HSE Area</th>
<th>Legacy General Ledger</th>
<th>Legacy Accounts Payable</th>
<th>Legacy Procurement</th>
</tr>
</thead>
<tbody>
<tr>
<td>HSE East</td>
<td>SAP(^{35})</td>
<td>SAP</td>
<td>SAP</td>
</tr>
<tr>
<td>HSE North East</td>
<td>SAP</td>
<td>SAP</td>
<td>SAP</td>
</tr>
<tr>
<td>HSE North West</td>
<td>Smartstream</td>
<td>Smartstream</td>
<td>Smartstream</td>
</tr>
<tr>
<td>HSE West</td>
<td>CA/Infor(^{36})</td>
<td>Arran</td>
<td>Arran</td>
</tr>
<tr>
<td>HSE South</td>
<td>CA/Infor</td>
<td>Arran</td>
<td>Arran</td>
</tr>
<tr>
<td>HSE South East</td>
<td>CA/Infor</td>
<td>Arran</td>
<td>Arran</td>
</tr>
<tr>
<td>HSE Mid West</td>
<td>CA/Infor</td>
<td>Arran</td>
<td>Arran</td>
</tr>
<tr>
<td>HSE Midland</td>
<td>SAP</td>
<td>SAP</td>
<td>SAP</td>
</tr>
</tbody>
</table>

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\(^{35}\) Product of SAP Ireland
\(^{36}\) Computer Associates (CA) is a company providing organisations with software solutions.
Appendix 11

Extracts from HSE Accounting Policies\(^{37}\)

**Basis of Accounting**
The financial statements have been prepared on an accruals basis, in accordance with the historical cost convention. Under the Health Act 2004, the Minister for Health and Children specifies the accounting standards to be followed by the HSE. The HSE has adopted Generally Accepted Accounting Principles (GAAP) in accordance with the accounting standards issued by the Accounting Standards Board subject to the following three exceptions specified by the Minister:

1. Depreciation is not charged to the Revenue Income and Expenditure Account, rather it is charged to a reserve account: the Capitalisation Account. Reserve accounting is not permitted under Generally Accepted Accounting Principles (GAAP). Under those principles, depreciation must be charged in the revenue income and expenditure account.

2. Grants received from the State to fund the purchase of fixed assets are recorded in a Capital Income and Expenditure Account. Under Generally Accepted Accounting Principles (GAAP), capital grants are recorded as deferred income and amortised over the useful life of the related fixed asset, in order to match the accounting treatment of the grant against the related depreciation charge on the fixed asset.

3. Pensions are accounted for on a pay-as-you go basis, and the provisions of FRS 17 Retirement Benefits are not applied.

**Basis of Preparation**
In accordance with FRS 2 Accounting for Subsidiary Undertakings, the results of wholly owned HSE subsidiaries have not been consolidated in the annual financial statements on the basis that they are not material. Details of staff numbers employed by HSE subsidiaries are included in Note 7 to the financial statements.

**Income Recognition**
(i) The HSE is funded mainly by monies voted annually by Dáil Éireann in respect of administration, capital and non-capital services. The amount recognised as income in respect of voted monies represents the net recourse to the Exchequer to fund payments made during the year. Income in respect of administration and non-capital services is accounted for in the Revenue Income and Expenditure Account. Income in respect of capital services is accounted for in the Capital Income and Expenditure Account.

Revenue funding applied to meet the repayment of monies borrowed by predecessor agencies and which were used to fund capital expenditure is accounted for in the Capital Income and Expenditure under the heading Revenue Funding Applied to Capital Projects.

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\(^{37}\) Relevant extracts from the HSE Annual Accounts and Financial Statements, 2006.
Appendix 11

(ii) Patient and service income is recognised at the time service is provided.

(iii) Superannuation contributions from staff are recognised when the deduction is made (see pensions accounting policy below).

(iv) Income from all other sources is recognised on a receipts basis.

(v) The amount of income, other than Exchequer grant, which the HSE is entitled to apply in meeting its expenditure is limited to the amount voted to it as ‘ Appropriations-in-Aid’ in the annual estimate. Other income received in the year in excess of this amount must be surrendered to the Exchequer. Other income is shown net of this surrender.

Capital Income and Expenditure Account
A Capital Income and Expenditure Account is maintained in accordance with the accounting standards laid down by the Minister for Health and Children.

Exchequer Capital Funding is the net recourse to the Exchequer to fund payments made during the year in respect of expenditure charged against the Capital Services subheads in the HSE’s Vote.

Capital funding is provided in the HSE’s Vote for construction/purchase of major assets, capital maintenance and miscellaneous capital expenditure not capitalised on the balance sheet. In addition, capital funding is provided in the HSE’s Vote for payment of capital grants to outside agencies. An analysis of capital expenditure by these categories is provided in a Note to the Financial Statements.

Balance on Income and Expenditure Accounts
Most of the income in both the Revenue and Capital Income and Expenditure Accounts is Exchequer Grant which is provided to meet liabilities maturing during the year as opposed to expenditure incurred during the year. A significant part of the remaining income is accounted for on a receipts basis. However, expenditure is recorded on an accruals basis. As a result, the balances on the income and expenditure accounts do not represent normal operating surpluses or deficits, as they are largely attributable to the difference between accruals expenditure and cash-based funding.

Grants to Outside Agencies
The HSE funds a number of service providers for the provision of health and personal social services on its behalf. Before entering into such an arrangement, the HSE determines the maximum amount of funding that it proposes to make available in the financial year under the arrangement and the level of service it expects to be provided for that funding. This funding is charged, in the year of account to the income and expenditure account at the maximum determined level for the year, although a certain element may not actually be disbursed until the following year.
Appendix 11

Leases
Rentals payable under operating leases are dealt with in the financial statements as they fall due. The HSE is not permitted to enter into finance lease obligations under the Department of Finance’s Public Financial Procedures. However, where assets of predecessor bodies have been acquired under finance leases, these leases have been taken over by the HSE on establishment. For these leases, the capital element of the asset is included in fixed assets and is depreciated over its useful life.

In addition to the normal GAAP treatment for assets acquired under finance leases, the cost of the asset is charged to the Capital Income and Expenditure Account and the Capitalisation (Reserve) Account is credited with an equivalent amount.

The outstanding capital element of the leasing obligation is included in creditors. Interest is charged to the income and expenditure account over the period of the lease.

Capital Grants
Capital grant funding is recorded in the Capital Income and Expenditure Account. In addition to capital grant funding, some minor capital expenditure is funded from revenue. The amount of this revenue funding expended in the year in respect of minor capital is charged in full in the Revenue Income and Expenditure Account in the year. This accounting treatment, which does not comply with Generally Accepted Accounting Principles, is a consequence of the exceptions to Generally Accepted Accounting Principles specified by the Minister.

Tangible Fixed Assets and Capitalisation Account
Tangible fixed assets comprise Land, Buildings, Work in Progress, Equipment and Motor Vehicles. Tangible fixed asset additions since 1 January 2005 are stated at historic cost less accumulated depreciation. The carrying values of tangible fixed assets taken over from predecessor bodies by the HSE are included in the opening balance sheet on establishment day, 1 January 2005, at their original cost/valuation. The related aggregate depreciation account balance was also included in the opening balance sheet.

In accordance with the accounting standards prescribed by the Minister, expenditure on fixed asset additions is charged to the Revenue Income and Expenditure Account or the Capital Income and Expenditure Account, depending on whether the asset is funded by capital or revenue funding.

All capital funded asset purchases are capitalised, irrespective of cost. Revenue funded assets are capitalised if the cost exceeds certain value thresholds; €2,000 for computer equipment and €7,000 for all other asset classes. Asset additions below this threshold and funded from revenue are written off in the year of purchase. A breakdown of asset additions by funding source is provided in a Note to the Financial Statements.
Appendix 11

Depreciation is not charged to the income and expenditure account over the useful life of the asset, instead, a balance sheet reserve account, the Capitalisation Account, is the reciprocal entry to the fixed asset account. Depreciation is charged to the Fixed Assets and Capitalisation Accounts over the useful economic life of the asset.

Depreciation is calculated to write-off the original cost/valuation of each tangible fixed asset over its useful economic life on a straight line basis at the following rates:

- Land: land is not depreciated.
- Buildings: depreciated at 2.5% per annum.
- Modular buildings (i.e. prefabricated buildings): depreciated at 10% per annum.
- Work in progress: no depreciation.
- Equipment-computers and ICT systems: depreciated at 33.33% per annum.
- Equipment - other: depreciated at 10% per annum.
- Motor vehicles: depreciated at 20% per annum.

On disposal of a fixed asset, both the fixed assets and capitalisation accounts are reduced by the net book value of the asset disposal. An analysis of the movement on the Capitalisation Account is provided in a Note to the Financial Statements.

Proceeds on disposals of fixed assets are considered as Exchequer Extra Receipts under the Department of Finance’s Public Financial Procedures. The HSE is not entitled to retain these sales proceeds for its own use and must surrender them to the Exchequer.

Stocks
Stocks are stated at the lower of cost and net realisable value. Net realisable value is the estimated proceeds of sale less costs to be incurred in the sale of stock.

Accounting for Bad and Doubtful Debts
Known bad debts are written off in the period in which they are identified. Specific provision is made for any amount which is considered doubtful. General provision is made for patient debts which are outstanding for more than one year.

Pensions
Eligible HSE employees are members of various defined benefit superannuation schemes. Pensions are paid to former employees by the HSE. The HSE is funded by the State on a pay-as-you-go basis for this purpose. The Vote from the State in respect of pensions is included in income. Pension payments under the schemes are charged to the income and expenditure account when paid. Contributions from employees who are
Appendix 11

members of the schemes are credited to the income and expenditure account when received. In previous years, no provision was made in respect of accrued pension benefits payable in future years under the pension scheme. This continues to be the treatment adopted by the HSE following the accounting specifications of the Minister.

Patients’ Private Property
Monies received for safe-keeping by the HSE from or on behalf of patients are kept in special accounts separate and apart from the HSE’s own accounts. Such accounts are collectively called Patients’ Private Property accounts. The HSE is responsible for the administration of these accounts. However, as this money is not the property of the HSE, these accounts are not included on the HSE’s balance sheet. The HSE acts as trustee of the funds. Patients’ Private Property accounts are independently audited each year. The audits of these accounts are either completed or in the process of completion for the year ended 31 December 2006.
## Appendix 12

Table illustrating for 2006 the relationship between cash, the Vote and the Income and Expenditure Statements

*Figures are used for illustrative purposes*

<table>
<thead>
<tr>
<th>Description</th>
<th>€M</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash from PMG</td>
<td>10,037.917</td>
</tr>
<tr>
<td>Movement in Bank Balances</td>
<td>-7.360</td>
</tr>
<tr>
<td>Movement in Suspense Accounts</td>
<td>-38.715</td>
</tr>
<tr>
<td><strong>Net Voted Amount</strong></td>
<td><strong>9,991.842</strong></td>
</tr>
<tr>
<td>Increase in Stocks</td>
<td>-23.545</td>
</tr>
<tr>
<td>Increase in Debtors</td>
<td>-16.171</td>
</tr>
<tr>
<td>Increase in Creditors</td>
<td>85.388</td>
</tr>
<tr>
<td>Decrease in Deferred Income</td>
<td>-0.590</td>
</tr>
<tr>
<td>Reduction in Other Reserves</td>
<td>.092</td>
</tr>
<tr>
<td>Increase in Bank</td>
<td>-7.360</td>
</tr>
<tr>
<td>Decrease in PMG</td>
<td>19.000</td>
</tr>
<tr>
<td>Increase in Liability to Exchequer</td>
<td>27.075</td>
</tr>
<tr>
<td><strong>Net Expenditure on an Income and Expenditure basis</strong></td>
<td><strong>10,075.731</strong></td>
</tr>
<tr>
<td>Other A-in-A</td>
<td>1,779.361</td>
</tr>
<tr>
<td>Patient Income per AFS</td>
<td>245.450</td>
</tr>
<tr>
<td>Other Income per AFS</td>
<td>386.163</td>
</tr>
<tr>
<td>Capital Income per AFS</td>
<td>8.747</td>
</tr>
<tr>
<td><strong>Gross Expenditure per AFS</strong></td>
<td><strong>12,495.452</strong></td>
</tr>
</tbody>
</table>
Appendix 13

Report of the Working Group on the Accountability of Secretaries General and Accounting Officers

Membership

Mr Paddy Mullarkey, former Secretary General, Department of Finance (chairperson),

Mr Tom Considine, Secretary General, Department of Finance,\(^{39}\)

Ms Margaret Hayes, Secretary General, Department of Community, Rural and Gaeltacht Affairs,\(^{40}\)

Mr Roger Kenny, Advisory Counsel, Grade 1, Office of the Attorney General,

Mr Dermot McCarthy, Secretary General, Department of the Taoiseach and Secretary to the Government,\(^{41}\)

Mr Lauri McDonnell, former Comptroller and Auditor General,

Dr Edmond Molloy, Independent Consultant,

Professor Kathy Monks, Dean, Dublin City University Business School,

Mr Eddie Sullivan, Secretary General, Public Service Management and Development, Department of Finance.\(^{42}\)

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\(^{39}\) On appointment to the Group Mr. Considine was Secretary General, PSMD, Department of Finance.

\(^{40}\) On appointment to the Group Ms. Hayes was Secretary General, Department of Tourism, Sport and Recreation.

\(^{41}\) On appointment to the Group Mr. McCarthy was Secretary General to the Government.

\(^{42}\) On appointment to the Group Mr. Sullivan was Secretary General, Department of Social, Community and Family Affairs.
Appendix 14

CHAPTER 4 of the Mullarkey Report

Dual Responsibility

4.1 All Secretaries General (who are principal officers of their Departments) are Accounting Officers. In their Accounting Officer role they are responsible for the stewardship of public funds for which they are responsible and are required to give evidence on how they have discharged this responsibility to the PAC. As Secretaries General they are accountable to the Minister for the discharge of their duties as civil service head of the Department. This Chapter examines the responsibility of Departmental Heads in relation to this dual role.

Duties of Secretaries General and Accounting Officers

4.2 The Secretary General is responsible, under the Minister, for the overall management of the Department. As part of that responsibility the Secretary General must ensure that the Department’s systems and procedures are adequate to enable it to discharge its functions. As part of his/her management responsibilities the Secretary General is required to ensure that the financial management systems and procedures are such as to enable the Department to use its resources in accordance with the requirements of regularity and propriety as well as the economic and efficient conduct of the Department’s business.

4.3 The duties of Accounting Officers are normally performed by Secretaries General (or in the case of Offices by the most senior official) because of their position of authority within the Department/Office and also because of the interrelationship between financial management and management of the Department generally. In the Group’s view the reasons for vesting the Accounting Officer function in the head of the organisation, rather than in a more junior official, remain valid.

4.4 It may be useful for the purpose of determining the overlap between in the role of the Secretary General and that of Accounting Officer to outline the respective responsibilities and accountability of both roles as set out in legislation and also, in the case of the Accounting Officer, in Public Financial Procedures. These are set out in Tables 1 and 2 following:
Appendix 14

Table 1

Secretaries General

Statutory Responsibilities of Secretaries General

- Managing the Department, implementing Government policies appropriate to the Department, monitoring Government policies that affect the Department, delivering outputs as determined with the Minister.
- Preparing and submitting a Strategy Statement to the Minister every 3 years or within 6 months of the appointment of a new Minister, and provide progress reports thereon.
- Preparing an outline of how specific responsibilities are to be assigned to other officers and assigning responsibilities so as to ensure that functions are performed by an appropriate Officer.
- Providing advice to the Minister on any matter, affecting or connected with the responsibilities of the Minister giving rise to material expenditure chargeable to its Appropriation Account.
- Ensuring the resources of the Department are used in a manner that is in accordance with the Comptroller and Auditor General (Amendment) Act, 1993, with a view to enabling the matters referred to in Section 19 of that Act to be appropriately addressed by the Department.
- Examining and developing means of improving the provision of cost effective public services.
- Making sure arrangements are in place to maximise efficiency in cross departmental matters.
- Managing all matters relating to the appointment, performance, discipline and dismissal of staff below the grade of Principal or equivalent. (Subject to amendments to the Civil Service Regulations Act, 1956 and the Civil Service Commissioners Act 1956).
- Carrying out, on behalf of the Minister, any other function of the Minister.

Statutory Accountability:

The Secretary General is accountable to the Minister under Section 6 of the Public Service Management Act 1997 for the performance of the above functions.

The Minister may give directions in writing on the above obligations with the exception of staffing issues below the grade of Principal.

Appearance before Oireachtas Committees:

The Secretary General or other officers of the Department may be requested to appear before Oireachtas Committees in respect of the Strategy Statement or other issues relevant to the terms of reference of Select or Joint Committees.

In appearing before a Committee the Secretary General may not express an opinion on the merits of policy (Section 15 of the Committees of the Houses of the Oireachtas (Compellability, Privileges and Immunities of Witnesses Act, 1997).

Source in relation to responsibilities: The Public Service Management Act, 1997
Table 1 illustrates the statutory responsibilities of Secretaries General as provided for in the 1997 Act. These encompass a wide range of management responsibilities ranging from the setting of strategic goals for the organisation to putting in place the management processes to deliver on these objectives (including risk assessments of the major obstacles to the achievement of objectives); financial management; change management, including developing areas such as the reform of the human resource function and the associated emphasis on the management and development of people within the organisation. They also encompass responsibility for driving new policy initiatives such as e-government. There has been a strong focus on providing a quality service to the customers (i.e. the members of the public and others) who avail of Government services in recent years arising out of the SMI.
Appendix 14

Table 2

<table>
<thead>
<tr>
<th>Accounting Officers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Responsibilities of Accounting Officers</td>
</tr>
</tbody>
</table>

- The safeguarding of public funds and property under his or her control.
- Ensuring that all relevant financial considerations are taken into account and, where necessary brought to the attention of Ministers where they concern the preparation and implementation of policy proposals relating to expenditure or income for which s/he is Accounting Officer.
- Economy and efficiency of the Department in the use of its resources; this includes ensuring that there are adequate financial management systems in place to support the proper administration of the Department in an economic and efficient way.
- The systems, procedures and practices employed by the Department for the purpose of evaluating the effectiveness of its operations.
- The adequacy of arrangements within the Department/Office to ensure the correctness of all payments under his/her control and the prompt and efficient recovery and bringing to account of all receipts connected with the Vote, or with any fund for which his/her Department is responsible.
- Responsibilities for internal audit including reviewing the internal audit function to ensure that they are getting the desired quality of assurance on the adequacy, reliability and efficiency of the Department’s internal control system.
- Ensuring that Finance sanction for expenditure has been obtained and for the maintenance of a central record of both delegated and specific sanctions.
- Responsibilities in respect of Grants-in-aid to outside agencies particularly in regard to the conditions of the grant; the submission of accounts as well as being satisfied that accounting systems and organisational arrangements of the grantee are adequate to ensure the proper administration of the money.
- Ensuring that there is a framework for control and accountability for public moneys in bodies operating under the aegis of the Department.
- Certain responsibilities for public bank accounts.
- In relation to the Appropriation Account the Accounting Officer is responsible for:
  
  (a) having the Account prepared and presented to the C&AG by 1 April of the year following that to which the account relates.
  
  (b) signing the account.

Statutory requirement to give evidence to the PAC

Specific statutory responsibilities under the Comptroller and Auditor General (Amendment) Act, 1993 to give evidence to the PAC on the issues set out in Paragraph 19 of the Comptroller and Auditor General (Amendment) Act, 1993 relating to regularity and propriety of transactions recorded in any account subject to audit by the C&AG as well as the economy, efficiency of the Department in the use of its resources and the systems, procedures and practices for evaluating effectiveness (VFM).

In appearing before the PAC the Accounting Officer may not express an opinion on the merits of a policy. Procedure exists for sending papers to the C&AG and Department of Finance in circumstance where there is a difference of opinion between the Accounting Officer and the Minister in an area for which the Accounting Officer has responsibility.

Appendix 14

4.5 There are significant overlaps between the role of Secretary General and that of Accounting Officer in relation to financial management.

- As Secretary General s/he must ensure that the Minister is advised on any matter that would give rise to material expenditure on the Appropriation Account. As Accounting Officer s/he has a responsibility to ensure that all relevant financial considerations are taken into account in relation to the preparation and implementation of policy proposals that have implications for income and expenditure for which s/he as Accounting Officer would have a responsibility.
- As both Secretary General and Accounting Officer s/he would be expected to have adequate financial management/control systems in place to support the proper administration of the Department’s functions in an economic and efficient way as well as meeting the requirements of regularity and propriety. S/he would also be responsible in both capacities for the provision of cost efficient public services.
- There is a specific statutory requirement on Secretaries General under the Public Service Management Act, 1997 to ensure that the resources of the Department are used in a manner which is in accordance with the Comptroller and Auditor General (Amendment) Act, 1993 so as to enable the Department to appropriately address the matters referred to in Section 19 of that Act. This makes regularity, propriety and value for money key requirements in managing the resources of the Department.
- In both capacities s/he would be expected to ensure that responsibilities are assigned to officers of appropriate experience and expertise.

4.6 From the above it can be seen that the financial management responsibilities of Accounting Officers also necessarily constitute part of the general management responsibilities of Secretaries General under the Minister.

4.7 There are issues for which the Secretaries General have responsibility which are not part of their duties as Accounting Officers. These would include the preparation of the Strategy Statement which constitutes a framework for action by the Department agreed between the Secretary General and the Minister. The Secretary General is also responsible for preparing progress reports on its implementation. Under the 1997 Act accountability for the Strategy Statement is to the Minister who is in turn answerable to the Oireachtas for the performance of his Department. Secretaries General and other officials may also be required to appear before the relevant Oireachtas Committee in relation to the Strategy Statement (the Orders of Reference of which make specific reference to the consideration of Strategy Statements). In appearing before these Committees they appear “on behalf of the Minister”.

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4.8 The Strategy Statement is relevant to the work of the Comptroller and Auditor General to the extent that it is open to him to have regard to it, and other statements/reports published by Departments, in carrying out VFM examinations. In this context the Strategy Statement could be relevant to an Accounting Officer’s evidence to the PAC on a VFM report.

4.9 While the Secretary General is not accountable to the PAC for the policy effectiveness of the operations of the Department, in both his/her Secretary General and Accounting Officer capacity s/he has a responsibility for having management systems in place to enable the Department to evaluate the effectiveness of its operations. Such systems are important in providing the information necessary to enable the Department assess its performance against its key objectives. The examination of such systems is an essential element of the VFM mandate of the Comptroller and Auditor General. The Accounting Officer is answerable for the quality and reliability of such systems. In addition to regularity and propriety of the transactions recorded in the accounts and the economy and efficiency of the Department in the use of its resources, in appearing before the PAC the Accounting Officer may be required to give evidence on the systems procedures and practices employed by the Department for the purpose of evaluating the effectiveness of its operations.

4.10 The functions of Accounting Officers in preparing the Appropriation Accounts and giving evidence before the PAC are not part of the functions assigned to Secretaries General pursuant to the 1997 Act, and the provisions of that Act do not apply in relation to the exercise of those functions. Nor was it intended that this should be the case.

4.11 Moreover, because the Accounting Officer’s responsibilities are personal to that role, the relationship of the Accounting Officer to the Minister is somewhat different from that which otherwise exists between a Secretary General and a Minister. This is emphasised by the fact that while there are procedures which enable the Minister to override the Accounting Officer in relation to an area for which the Accounting Officer has a responsibility, in these circumstances the papers are sent to the C&AG. It would also be a matter for the PAC to examine any issue that has been brought to its attention by the C&AG in that regard. In practice, the full formal procedure set out in Public Financial Procedures is rarely, if ever, used as issues are normally resolved between the Accounting Officer and the Minister. This does not, however, detract from the usefulness of having such a procedure in place. The Group sees this procedure as an important component of the checks and balances in the system of accountability for public money.

4.12 Figure 1 illustrates the Secretary General and Accounting Officer functions, their reporting arrangements including those to Oireachtas Committees and the relationship with the Minister in both roles.
Appendix 14

The Accounting Officer gives evidence to the PAC on regularity, propriety and value for money as set out in Section 19 of the Comptroller and Auditor General (Amendment) Act, 1993. S/he appears before the PAC in his/her own right.

The Secretary General appears before Select and Joint Committees on a variety of issues relevant to the Department including the Strategy Statement in the case of Joint Committees. S/he appears before these Committees “on behalf of the Minister” as part of the Minister’s constitutional responsibility.

Represents the power of the Minister to give written directions to both the Secretary General and the Accounting Officer

In circumstances where Accounting Officer is overruled in writing by the Minister the papers are sent to the Comptroller and Auditor General.
Appendix 14

4.13 Compliance with proper financial procedures is an essential element in the responsibilities of an Accounting Officer. Adherence to procedures is subject to audit and examination by the C&AG and to scrutiny by the PAC. Compliance with procedures is an important means of ensuring regularity and propriety. Issues can arise from time to time where there is perceived to be a conflict between, on the one hand, the requirements of normal public financial procedures and the national interest where a particular course of actions is taken because of time pressure or where issues of security or confidentiality arise on the other. There are, however, normally mechanisms within the existing systems that can be availed of (e.g. in the case of contracts, referral to the Government Contracts Committee) to cater for exceptional circumstances where there are reasons warranting departure from normal procedures.

4.14 The dual role of Secretary General and Accounting Officer involves a complex set of responsibilities and reporting arrangements both to the Minister and to Oireachtas Committees. While there may appear to be the potential for conflict in the exercise of the dual responsibility to the Minister and to the PAC in the case of the Accounting Officer, the Group considers that there are sufficient checks in the system to overcome difficulties that may emerge on exceptional occasions.

4.15 There are also important synergies arising from the role. The fact that the duties of Accounting Officer are vested in the most senior official in the organisation, who is personally answerable to the PAC, gives an important focus to managerial accountability for regularity, propriety and value for money in the operations of the Department. This, in turn, contributes to and underpins the exercise of the Secretary General function.

4.16 The responsibility of the Accounting Officer gives him/her considerable authority within the organisation, particularly in relation to advice given to the Minister, without undermining the authority of the Minister who is in charge of the Department. As outlined in Paragraph 4.11 it remains open to the Minister to overrule an Accounting Officer in writing. The prohibition on Accounting Officers and Secretaries General from commenting on the merits of policy when appearing before Oireachtas Committees is also intended to maintain the distinction that it is the Minister who is responsible to the Oireachtas for policy matters.

4.17 The role of Accounting Officer can be seen as part of a delicate system of checks and balances which makes a senior official answerable to the PAC (who report to the Dáil) for public funds in accordance with the relevant legislation while at the same time maintaining the authority of the Minister in relation to the Department.
Appendix 15

Section 19 of the Comptroller and Auditor General (Amendment) Act, 1993

Duties of accounting officers.

19.—(1) In addition to performing his duty under section 22 of the Act of 1866, an accounting officer shall, whenever he is so required by the committee of Dáil Éireann established under the Standing Orders of Dáil Éireann to examine and report to Dáil Éireann on the appropriation accounts, give evidence to that committee on—

(a) the regularity and propriety of the transactions recorded or required to be recorded in any account subject to audit by the Comptroller and Auditor General which he or the Department concerned is required by or under statute to prepare,

(b) the economy and efficiency of the Department in the use of its resources,

(c) the systems, procedures and practices employed by the Department for the purpose of evaluating the effectiveness of its operations, and

(d) any matter affecting the Department referred to in a special report of the Comptroller and Auditor General under section 11 (2) or in any other report of the Comptroller and Auditor General (in so far as it relates to a matter specified in paragraph (a), (b) or (c)) that is laid before Dáil Éireann.

(2) In the performance of his duty under this section an accounting officer shall not question or express an opinion on the merits of any policy of the Government or a Minister of the Government or on the merits of the objectives of such a policy.
The **Accounting Officer** gives evidence to the PAC on regularity, propriety and value for money as set out in Section 19 of the Comptroller and Auditor General (Amendment) Act, 1993. S/he appears before the PAC in his/her own right.

The **Chief Executive** appears before the Select and Joint Committees on a variety of issues related to the HSE, including the Corporate Plan and the Annual Service Plan. S/he appears before these Committees on behalf of the HSE Board, as part of the HSE Board’s responsibility to the Minister for Health and Children.

Repr esents the power of the Minister to give written directions to the Board of the HSE and the Chair of the Board to give written directions to the Accounting Officer.

In circumstances where Accounting Officer is overruled in writing by the Board the papers are sent to the Comptroller and Auditor General.
### Example illustrating actual cash paid from Vote 2006 and 2007

<table>
<thead>
<tr>
<th></th>
<th>2007 €000s</th>
<th>2006 €000s</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expenditure Current</td>
<td>13,541,204</td>
<td>12,037,650</td>
</tr>
<tr>
<td>Expenditure Capital</td>
<td>635,897</td>
<td>457,802</td>
</tr>
<tr>
<td><strong>Total Expenditure</strong></td>
<td><strong>14,177,101</strong></td>
<td><strong>12,495,452</strong></td>
</tr>
<tr>
<td>Add opening creditors</td>
<td>1,392,218</td>
<td>1,306,830</td>
</tr>
<tr>
<td></td>
<td><strong>15,569,319</strong></td>
<td><strong>13,802,282</strong></td>
</tr>
<tr>
<td>Deduct closing creditors</td>
<td>(1,554,243)</td>
<td>(1,392,218)</td>
</tr>
<tr>
<td>Add increase in current assets adjusted for change in deferred income</td>
<td>47,869</td>
<td>1,591</td>
</tr>
<tr>
<td><strong>Total cash required in accounting period</strong></td>
<td><strong>14,062,945</strong></td>
<td><strong>12,411,655</strong></td>
</tr>
</tbody>
</table>

**Funded by:**

<table>
<thead>
<tr>
<th></th>
<th>2007 €000s</th>
<th>2006 €000s</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net recourse to the Exchequer</td>
<td>11,453,131</td>
<td>9,991,842</td>
</tr>
<tr>
<td>Other Income</td>
<td>2,609,814</td>
<td>2,419,813</td>
</tr>
<tr>
<td></td>
<td><strong>14,062,945</strong></td>
<td><strong>12,411,655</strong></td>
</tr>
</tbody>
</table>

---

43 HSE Revenue Income and Expenditure Account  
44 HSE Capital Income and Expenditure Account  
45 HSE Balance Sheet – Creditors over and under 1 year  
46 Note 3, AFS ; net Vote total plus Appropriations-in-aid of €17.669m surrendered to the Exchequer  
47 Annual Financial Statements, mainly appropriations-in-aid
Appendix 18

Reconciliation of cash with the Vote and the AFS Income and Expenditure Statements

<table>
<thead>
<tr>
<th>CASH FROM PMG</th>
<th>€000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue and Capital Cash Drawdown from PMG</td>
<td>13,901,653</td>
</tr>
<tr>
<td>Less A-in-A Lodged Directly to PMG</td>
<td>-1,934,463</td>
</tr>
<tr>
<td>Less A-in-A retained by HSE</td>
<td>-576,215</td>
</tr>
<tr>
<td><strong>Net Cash From PMG</strong></td>
<td>11,390,975</td>
</tr>
<tr>
<td>Decrease in Bank Balances</td>
<td>12,607</td>
</tr>
<tr>
<td>Increase in Net Credit Suspense Account Balances</td>
<td>31,880</td>
</tr>
<tr>
<td><strong>NET VOTE EXPENDITURE</strong></td>
<td>11,435,462</td>
</tr>
<tr>
<td>Increase in Stocks</td>
<td>-7,110</td>
</tr>
<tr>
<td>Decrease in Debtors</td>
<td>412</td>
</tr>
<tr>
<td>Increase in Creditors</td>
<td>162,025</td>
</tr>
<tr>
<td>Increase in Deferred Income</td>
<td>-9,292</td>
</tr>
<tr>
<td>Decrease in Bank</td>
<td>12,607</td>
</tr>
<tr>
<td>Increase in PMG and Net Liability to the Exchequer</td>
<td>-44,486</td>
</tr>
<tr>
<td><strong>NET EXPENDITURE on an Income and Expenditure basis</strong></td>
<td>11,549,618</td>
</tr>
<tr>
<td><strong>Expenditure per Annual Financial Statements</strong></td>
<td>€000</td>
</tr>
<tr>
<td>Revenue I &amp; E Account – Pay</td>
<td>4,810,970</td>
</tr>
<tr>
<td>Revenue I &amp; E Account – Non-Pay</td>
<td>8,730,234</td>
</tr>
<tr>
<td>Capital Expenditure</td>
<td>635,897</td>
</tr>
<tr>
<td><strong>Gross Expenditure = Revenue + Capital</strong></td>
<td>14,177,101</td>
</tr>
<tr>
<td><strong>Income per Annual Financial Statements</strong></td>
<td>€000</td>
</tr>
<tr>
<td>Income Excluding Exchequer Revenue Grant</td>
<td>2,619,543</td>
</tr>
<tr>
<td>Capital Income</td>
<td>7,940</td>
</tr>
<tr>
<td><strong>Total Income = Revenue + Capital</strong></td>
<td>2,627,483</td>
</tr>
<tr>
<td><strong>Net Expenditure on an Income and Expenditure basis</strong></td>
<td>€000</td>
</tr>
<tr>
<td>ie Gross Expenditure less Total Income</td>
<td>11,549,618</td>
</tr>
</tbody>
</table>

The principle of the above calculation is that expenditure recorded in the Financial Statements must be adjusted for non-cash movements to arrive at the figure for net Voted expenditure.

48 Supplied by HSE (August 2008) using 2007 outturn figures
49 Including €115m for Long Stay Repayments Scheme
50 Source – 2007 Appropriation Account for HSE Vote 40
51 Revenue Income and Expenditure Account
52 Capital Income and Expenditure Account
### Appendix 19

**Example illustrating the source of the combined current and capital deficits in the Annual Financial Statements for 2007**

<table>
<thead>
<tr>
<th>Description</th>
<th>€,000s</th>
</tr>
</thead>
<tbody>
<tr>
<td>Closing Creditors at 31/12/2007</td>
<td>1,554,243</td>
</tr>
<tr>
<td>less Opening Creditors at 1/1/2007</td>
<td>1,392,218</td>
</tr>
<tr>
<td>Increase in Creditors during 2007</td>
<td>162,025</td>
</tr>
<tr>
<td>less increase in current assets</td>
<td>38,577</td>
</tr>
<tr>
<td>Reduction in deferred income</td>
<td>9,292</td>
</tr>
<tr>
<td></td>
<td>47,869</td>
</tr>
<tr>
<td></td>
<td><strong>114,156</strong></td>
</tr>
</tbody>
</table>

Net Operating Deficit for 2007: 41,747

Net Capital Deficit for 2007: 72,409

**114,156**

---

53 HSE Balance Sheet at 31 December, 2007
54 HSE Revenue Income and Expenditure Account for 2007
55 HSE Capital Income and Expenditure Account for 2007
## Monthly Reconciliation of Vote to Corporate Reporting Solution (CRS)

**Area**: To 31/7/07

**Net Expenditure per AFS/CRS**  
(561,205,143)

**Capital Expenditure per Capital I&E Account**  
(31,921,173)

**Total Expenditure per AFS / CRS**  
(593,126,316)

### Working Capital Movements

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Increase)/Decrease in Stock</td>
<td>77,897</td>
</tr>
<tr>
<td>(Increase)/Decrease in Debtors-Patient Debtors</td>
<td>(373,272)</td>
</tr>
<tr>
<td>(Increase)/Decrease in Debtors-Other Debtors</td>
<td>(229,938)</td>
</tr>
<tr>
<td>(Increase)/Decrease in Debtors-Prepayments</td>
<td>(3,181,057)</td>
</tr>
<tr>
<td>(Increase)/Decrease in Debtors-Interagency</td>
<td>725,335</td>
</tr>
<tr>
<td>Increase/(Decrease) in Creditors-Non Pay Creditors</td>
<td>10,007,316</td>
</tr>
<tr>
<td>Increase/(Decrease) in Creditors-Accruals Pay and Non Pay</td>
<td>8,528,112</td>
</tr>
<tr>
<td>Increase/(Decrease) in Creditors-Lottery Grants</td>
<td>20,540</td>
</tr>
<tr>
<td>Increase/(Decrease) in Creditors-Interagency</td>
<td>(67,952)</td>
</tr>
<tr>
<td>Increase/(Decrease) in Creditors-Interagency Accruals</td>
<td>(1,261,402)</td>
</tr>
<tr>
<td>Increase/(Decrease) in Non-Vote Special I &amp;E</td>
<td>9,757</td>
</tr>
</tbody>
</table>

**Net Expenditure per Vote Return**  
(578,870,980)

**Net Revenue Expenditure per Actual Return**  
(583,453,000)

**Difference**  
(4,582,020)

### Note 1 – Reconciliation of Net Revenue Expenditure to Movement in Deficit

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Revenue Expenditure per CRS</td>
<td>(561,205,143)</td>
</tr>
<tr>
<td>Revenue Cash Received form HSE Corporate</td>
<td>541,892,000</td>
</tr>
<tr>
<td>Surplus/(Deficit) for period 1/1/07 to 31/7/07</td>
<td>(19,313,143)</td>
</tr>
</tbody>
</table>

Revenue Deficit at 1/1/07  
10,531,573

Revenue Deficit at 31/7/07  
(8,780,114)

Movement in Deficit  
(19,311,687)

### Note 2 – Reconciliation of Net Capital Expenditure to Movement in Deficit

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Capital Expenditure per GL</td>
<td>(31,921,173)</td>
</tr>
<tr>
<td>Capital Cash Received from HSE Corporate</td>
<td>38,680,701</td>
</tr>
<tr>
<td>Surplus/(Deficit) for period 1/1/07 to 31/7/07</td>
<td>6,759,528</td>
</tr>
</tbody>
</table>

Capital Deficit at 1/1/07  
-18,679,416

Capital Deficit at 31/7/07  
-11,919,883

Movement in Deficit  
6,759,533

### Note 3 – Reconciliation of 2007 Surplus to 2007 Vote Expenditure

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Subhead B.1</td>
<td>568,940,000</td>
</tr>
<tr>
<td>Subhead B.11</td>
<td>546,000</td>
</tr>
<tr>
<td>Appropriations-in-Aid</td>
<td>-23,825,000</td>
</tr>
<tr>
<td>Vote Capital Expenditure</td>
<td>37,792,000</td>
</tr>
</tbody>
</table>

**Net Vote Expenditure per Reconciliation**  
583,453,000

Revenue Cash Received from HSE Corporate  
541,892,000

Capital Cash Received from HSE Corporate  
38,680,701

Total Cash Received  
580,572,701

Surplus/(Deficit) at 31/7/07  
-2,880,299
Appendix 21

HSE Budget and Allocation Reporting Process

National Director of Finance

AND Corporate Reporting and Budgeting

Vote allocation

AND Vote and Treasury

4 x AND Area Resource Management

Service Managers at Local / Hospital level

HSE Budget Allocation

Income and Expenditure Monthly Reports

Monitoring of cash

Note:
This diagram does not show the reporting relationship of the Assistant National Directors (AND). It is solely concerned with the flow of financial information.
## Appendix 22

### Definition of Key Financial Measures in respect of HSE Vote 40

<table>
<thead>
<tr>
<th>Measures</th>
<th>Source</th>
<th>2008 calculation</th>
<th>2007 Outturn</th>
<th>2006 Outturn</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current Expenditure</strong></td>
<td>REV A Subheads</td>
<td>79,868</td>
<td>64,969</td>
<td>31,695</td>
</tr>
<tr>
<td></td>
<td>REV Plus B Subheads</td>
<td>14,264,732</td>
<td>13,369,762</td>
<td>11,856,700</td>
</tr>
<tr>
<td></td>
<td>REV Less capital in B Subheads</td>
<td>7,000</td>
<td>2,646</td>
<td>0</td>
</tr>
<tr>
<td><strong>Gross Current</strong></td>
<td>REV Less Current A-in-As</td>
<td>14,337,600</td>
<td>13,432,085</td>
<td>11,856,700</td>
</tr>
<tr>
<td><strong>Net Current</strong></td>
<td>REV Less Capital A-in-As</td>
<td>11,743,325</td>
<td>10,936,114</td>
<td>9,580,944</td>
</tr>
<tr>
<td><strong>Capital Expenditure</strong></td>
<td>REV C Subheads</td>
<td>586,720</td>
<td>517,781</td>
<td>450,146</td>
</tr>
<tr>
<td></td>
<td>REV Plus capital in B subheads</td>
<td>7,000</td>
<td>2,646</td>
<td>0</td>
</tr>
<tr>
<td><strong>Gross Capital</strong></td>
<td>REV Less Capital A-in-As</td>
<td>593,720</td>
<td>520,427</td>
<td>450,146</td>
</tr>
<tr>
<td><strong>Net Capital</strong></td>
<td>REV Equals</td>
<td>586,720</td>
<td>517,781</td>
<td>450,146</td>
</tr>
</tbody>
</table>

**HSE Net Revenue**

<table>
<thead>
<tr>
<th>PMR</th>
<th>2008</th>
<th>2007</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>REV Less D1 Health</td>
<td>13,707,600</td>
<td>12,767,931</td>
<td>11,360,232</td>
</tr>
<tr>
<td>Contributions</td>
<td>1,330,000</td>
<td>1,298,201</td>
<td>1,188,408</td>
</tr>
<tr>
<td>REV Less D2 EU Regulations</td>
<td>450,000</td>
<td>450,000</td>
<td>396,769</td>
</tr>
<tr>
<td>REV Less D3 Excise Duties</td>
<td>167,605</td>
<td>167,605</td>
<td>167,605</td>
</tr>
<tr>
<td>REV Less D4/5/6/8/9</td>
<td>23,670</td>
<td>18,657</td>
<td>26,506</td>
</tr>
<tr>
<td>REV Plus Capital in D8/9</td>
<td>7,000</td>
<td>2,646</td>
<td>0</td>
</tr>
<tr>
<td><strong>Net Current</strong></td>
<td>REV Equals</td>
<td>11,743,325</td>
<td>10,836,114</td>
</tr>
</tbody>
</table>

**HSE Net Revenue**

<table>
<thead>
<tr>
<th>PMR</th>
<th>2008</th>
<th>2007</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>REV Plus D7 patient charges</td>
<td>13,707,600</td>
<td>12,867,931</td>
<td>11,328,537</td>
</tr>
<tr>
<td>REV Plus D10 superannuation</td>
<td>315,000</td>
<td>266,660</td>
<td>231,725</td>
</tr>
<tr>
<td>REV Plus D11 misc receipts</td>
<td>205,000</td>
<td>192,431</td>
<td>176,590</td>
</tr>
<tr>
<td>REV Equals</td>
<td>14,337,600</td>
<td>13,432,085</td>
<td>11,856,700</td>
</tr>
</tbody>
</table>

**Notes:**
- PMR = Performance Monthly Report
- Subhead A = Corporate Administration
- Subhead B = Programmes
- Subhead C = Capital
- Subhead D= Appropriations in Aid
## Appendix 23

### End-year overdraft levels for the main agencies funded by the HSE

<table>
<thead>
<tr>
<th>Agency</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>€000</td>
<td>€000</td>
<td>€000</td>
<td>€000</td>
<td>€000</td>
<td>€000</td>
</tr>
<tr>
<td><strong>Beaumont Hospital</strong></td>
<td>-12,077,000</td>
<td>(12,434,000)</td>
<td>(13,257,000)</td>
<td>(12,192,367)</td>
<td>(13,000,000)</td>
<td>(16,143,000)</td>
</tr>
<tr>
<td><strong>Central Remedial Clinic</strong></td>
<td>-971,891</td>
<td>0</td>
<td>(294,909)</td>
<td>(464,689)</td>
<td>(187,298)</td>
<td></td>
</tr>
<tr>
<td><strong>Cheeverstown House Ltd</strong></td>
<td>0</td>
<td>(54,000)</td>
<td>(150,000)</td>
<td>0</td>
<td>0</td>
<td>(973,400)</td>
</tr>
<tr>
<td><strong>Children’s Hospital, Temple Street</strong></td>
<td>0</td>
<td>(910,787)</td>
<td>0</td>
<td>(862,817)</td>
<td>(3,431,827)</td>
<td>(4,071,794)</td>
</tr>
<tr>
<td><strong>Children’s Sunshine Home</strong></td>
<td>0</td>
<td>0</td>
<td>(5,475)</td>
<td>0</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td><strong>City Of Dublin Skin &amp; Cancer, Hume St</strong></td>
<td>-72,226</td>
<td>(191,255)</td>
<td>0</td>
<td>(95,751)</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td><strong>Coome Women’s Hospital</strong></td>
<td>-1,644,855</td>
<td>(2,836,168)</td>
<td>(2,602,885)</td>
<td>(3,031,102)</td>
<td>(4,500,000)</td>
<td>0</td>
</tr>
<tr>
<td><strong>Daughters of Charity of St Vincent de Paul</strong></td>
<td>-2,219,767</td>
<td>0</td>
<td>(1,022,624)</td>
<td>(1,408,583)</td>
<td>0</td>
<td>(815,683)</td>
</tr>
<tr>
<td><strong>Drug Treatment Centre Board</strong></td>
<td>0</td>
<td>0</td>
<td>(214,556)</td>
<td>(887,217)</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Dublin Dental School and Hospital</strong></td>
<td>-400,000</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Federated Dublin Voluntary Hospitals</strong></td>
<td>-374,363</td>
<td>(287,856)</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Incorporated Orthopaedic Hospital, Clontarf</strong></td>
<td>-324,764</td>
<td>(726,244)</td>
<td>0</td>
<td>(723,189)</td>
<td>(714,417)</td>
<td>(536,840)</td>
</tr>
<tr>
<td><strong>Kare</strong></td>
<td>-616,810</td>
<td>(506,763)</td>
<td>(430,717)</td>
<td>(5,376)</td>
<td>0</td>
<td>(645,398)</td>
</tr>
<tr>
<td><strong>Leopardstown Park Hospital Board</strong></td>
<td>-455,000</td>
<td>0</td>
<td>(40,000)</td>
<td>(39,058)</td>
<td>(802,208)</td>
<td>(915,547)</td>
</tr>
<tr>
<td><strong>Mater Misericordiae University Hospital</strong></td>
<td>-9,115,000</td>
<td>(11,567,329)</td>
<td>(10,214,414)</td>
<td>(8,231,563)</td>
<td>(9,999,313)</td>
<td>(16,397,778)</td>
</tr>
<tr>
<td><strong>National Maternity Hospital</strong></td>
<td>-2,935,000</td>
<td>0</td>
<td>(3,040,000)</td>
<td>(3,581,769)</td>
<td>(4,172,000)</td>
<td>(2,401,302)</td>
</tr>
<tr>
<td><strong>National Rehabilitation Hospital</strong></td>
<td>-1,400,000</td>
<td>(950,000)</td>
<td>(861,317)</td>
<td>(421,210)</td>
<td>(2,271,053)</td>
<td>(2,271,053)</td>
</tr>
<tr>
<td><strong>Our Lady’s Hospice Harold’s Cross</strong></td>
<td>-297,326</td>
<td>(1,676,466)</td>
<td>(1,588,190)</td>
<td>(3,906,781)</td>
<td>(2,500,000)</td>
<td>(5,426,905)</td>
</tr>
<tr>
<td><strong>Our Lady’s Hospital for Sick Children, Crumlin</strong></td>
<td>-4,478,587</td>
<td>(4,385,000)</td>
<td>(493,536)</td>
<td>(1,745,634)</td>
<td>(6,613,563)</td>
<td>(8,910,527)</td>
</tr>
<tr>
<td><strong>Peamount Hospital</strong></td>
<td>0</td>
<td>(33,322)</td>
<td>(25,722)</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Rotunda Hospital</strong></td>
<td>-409,030</td>
<td>0</td>
<td>(1,362,966)</td>
<td>0</td>
<td>0</td>
<td>(981,160)</td>
</tr>
<tr>
<td><strong>Royal Hospital Donnybrook</strong></td>
<td>0</td>
<td>(287,747)</td>
<td>(187,973)</td>
<td>0</td>
<td>(69,220)</td>
<td>0</td>
</tr>
<tr>
<td><strong>Royal Victoria Eye &amp; Ear Hospital</strong></td>
<td>-328,575</td>
<td>0</td>
<td>(1,726,418)</td>
<td>(723,426)</td>
<td>(2,158,372)</td>
<td></td>
</tr>
<tr>
<td><strong>Sisters Of Charity of Jesus and Mary, Mooreabbe</strong></td>
<td>-154,265</td>
<td>0</td>
<td>(355,962)</td>
<td>(1,619,428)</td>
<td>(1,563,549)</td>
<td></td>
</tr>
<tr>
<td><strong>St James’s Hospital</strong></td>
<td>-12,144,321</td>
<td>(20,812,635)</td>
<td>0</td>
<td>(5,173,548)</td>
<td>(25,361,116)</td>
<td>0</td>
</tr>
<tr>
<td><strong>St John of God</strong></td>
<td>-2,400,000</td>
<td>N/A</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>St Luke’s Hospital</strong></td>
<td>-546,083</td>
<td>(2,668,000)</td>
<td>(1,813,000)</td>
<td>(2,381,044)</td>
<td>(3,500,000)</td>
<td>(1,630,116)</td>
</tr>
<tr>
<td><strong>St Mary’s Baldoyle Hospital &amp; Residential School</strong></td>
<td>0</td>
<td>0</td>
<td>(21,710)</td>
<td>(515,733)</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>St Marys Cappagh National Orthopaedic Hospital</strong></td>
<td>0</td>
<td>(950,000)</td>
<td>(599,788)</td>
<td>0</td>
<td>0</td>
<td>(1,800,000)</td>
</tr>
<tr>
<td><strong>St Michael’s Hospital, Dun Laoghaire</strong></td>
<td>-973,078</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>(129,107)</td>
<td>0</td>
</tr>
<tr>
<td><strong>St Michael’s House</strong></td>
<td>-453,000</td>
<td>(221,111)</td>
<td>(2,265,375)</td>
<td>(1,166,623)</td>
<td>(2,083,193)</td>
<td>(2,807,665)</td>
</tr>
<tr>
<td><strong>St Vincent’s Hospital, Elm Park</strong></td>
<td>-750,693</td>
<td>(7,352,000)</td>
<td>(9,588,000)</td>
<td>0</td>
<td>(13,629,000)</td>
<td>(18,760,000)</td>
</tr>
<tr>
<td><strong>St Vincent’s Hospital, Fairview</strong></td>
<td>-10,200,000</td>
<td>(400,735)</td>
<td>(273,183)</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Stewarts Hospital Services Ltd</strong></td>
<td>-2,200,000</td>
<td>(3,207,973)</td>
<td>(3,311,993)</td>
<td>(2,680,298)</td>
<td>(4,536,240)</td>
<td>(3,590,000)</td>
</tr>
<tr>
<td><strong>Sunbeam House Services</strong></td>
<td>-23,283</td>
<td>0</td>
<td>0</td>
<td>(1,294,214)</td>
<td>(121,779)</td>
<td>(197,578)</td>
</tr>
<tr>
<td><strong>Tallaght Adelaide &amp; Meath Hospital</strong></td>
<td>-4,257,875</td>
<td>(10,731,000)</td>
<td>(7,936,554)</td>
<td>(16,320,450)</td>
<td>(16,596,533)</td>
<td>(19,402,246)</td>
</tr>
<tr>
<td></td>
<td>(72,222,791)</td>
<td>(83,210,391)</td>
<td>(61,596,412)</td>
<td>(69,216,871)</td>
<td>(116,560,721)</td>
<td>(112,399,913)</td>
</tr>
<tr>
<td><strong>Allocations</strong></td>
<td>1,548,620,058</td>
<td>1,705,845,813</td>
<td>1,833,512,519</td>
<td>1,906,682,065</td>
<td>2,147,764,823</td>
<td>2,324,049,997</td>
</tr>
<tr>
<td><strong>Max 7.5%</strong></td>
<td>116,146,504</td>
<td>127,938,436</td>
<td>137,513,439</td>
<td>143,001,155</td>
<td>161,082,362</td>
<td>174,303,750</td>
</tr>
<tr>
<td><strong>Percentage used</strong></td>
<td>62.18%</td>
<td>65.04%</td>
<td>44.79%</td>
<td>48.40%</td>
<td>72.36%</td>
<td>64.49%</td>
</tr>
</tbody>
</table>
Appendix 24

Creditors for 2006 and 2007:
Note 15 Annual Financial Statements (AFS) reconciled to Note 3 in the Appropriation Account

<table>
<thead>
<tr>
<th></th>
<th>2007 (€000s)</th>
<th>2006 (€000s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Creditors falling due up to one year</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bank balances (uncashed cheques)</td>
<td>12,894</td>
<td>-</td>
</tr>
<tr>
<td>Finance leases</td>
<td>1,439</td>
<td>1,123</td>
</tr>
<tr>
<td>Non Pay Creditors (Unpaid invoices)</td>
<td>219,855</td>
<td>171,356</td>
</tr>
<tr>
<td>Accruals for pay</td>
<td>263,409</td>
<td>242,202</td>
</tr>
<tr>
<td>Accruals for non-pay (goods services received but not invoiced)</td>
<td>860,369</td>
<td>775,954</td>
</tr>
<tr>
<td>Income Tax and Social Welfare (Due to State)</td>
<td>114,699</td>
<td>108,050</td>
</tr>
<tr>
<td>Lottery Grants payable</td>
<td>1,089</td>
<td>2,589</td>
</tr>
<tr>
<td>Sundry Creditors</td>
<td>20,727</td>
<td>29,818</td>
</tr>
<tr>
<td>Total Falling due up to one year</td>
<td>1,494,481</td>
<td>1,332,092</td>
</tr>
</tbody>
</table>

(b) Creditors falling due after more than one year\(^{56}\)
<table>
<thead>
<tr>
<th></th>
<th>2007 (€000s)</th>
<th>2006 (€000s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total creditors</td>
<td>1,554,243</td>
<td>1,392,218</td>
</tr>
</tbody>
</table>

Summary of creditors for 2006 and 2007: from AFS and Appropriation Account

<table>
<thead>
<tr>
<th></th>
<th>2007 (€000s)</th>
<th>2006 (€000s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Creditors falling due up to one year</td>
<td>1,494,481</td>
<td>1,332,092</td>
</tr>
<tr>
<td>Creditors falling due after one year</td>
<td>59,762</td>
<td>60,126</td>
</tr>
<tr>
<td><strong>Total Creditors from AFS</strong></td>
<td><strong>1,554,243</strong></td>
<td><strong>1,392,218</strong></td>
</tr>
<tr>
<td>Less amount due to State(^{57})</td>
<td>114,699 1,439,544 108,050</td>
<td></td>
</tr>
<tr>
<td>Add Deferred income</td>
<td>5,276</td>
<td>14,568</td>
</tr>
<tr>
<td><strong>Total creditors from Appropriation A/C</strong></td>
<td><strong>1,444,820</strong></td>
<td><strong>1,298,736</strong></td>
</tr>
</tbody>
</table>

\(^{56}\) Includes a very small pay element, circa €40K in 2007

\(^{57}\) In Appropriation Accounts this item is listed as “Other credit balances”
## Creditors and Accruals 2005-2007

<table>
<thead>
<tr>
<th>Year</th>
<th>2007</th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-Pay Creditors per AFS</td>
<td>219,855</td>
<td>171,356</td>
<td>168,104</td>
</tr>
<tr>
<td>Accruals per AFS</td>
<td>1,123,778</td>
<td>1,019,156</td>
<td>924,317</td>
</tr>
<tr>
<td>Total per AFS</td>
<td>1,343,633</td>
<td>1,190,512</td>
<td>1,092,421</td>
</tr>
<tr>
<td>% Increase</td>
<td>12.86%</td>
<td>8.98%</td>
<td></td>
</tr>
</tbody>
</table>

| Revenue Expenditure per AFS | 13,541,204 | 12,037,650 | 11,000,508 |
| Capital Expenditure per AFS | 635,897    | 457,802    | 534,817    |
| Total per AFS | 14,177,101 | 12,495,452 | 11,535,325 |
| % Increase     | 13.46%   | 8.32%   |         |

Accruals % of spend | 9.48% | 9.53% | 9.47%

### Per Appropriation Account

<table>
<thead>
<tr>
<th>Account</th>
<th>2007</th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue Expenditure</td>
<td>13,390,592</td>
<td>11,850,682</td>
<td>10,811,316</td>
</tr>
<tr>
<td>Capital Expenditure</td>
<td>555,548</td>
<td>443,724</td>
<td>513,729</td>
</tr>
<tr>
<td>Total</td>
<td>13,946,140</td>
<td>12,294,406</td>
<td>11,325,045</td>
</tr>
<tr>
<td>% Increase</td>
<td>13.43%</td>
<td>8.56%</td>
<td></td>
</tr>
</tbody>
</table>

### Summary

- Increase in Creditors and Accruals 2005-2007: 23.00%
- Increase in AFS Expenditure 2005-2007: 22.90%
- Increase in Vote Expenditure 2005-2007: 23.14%
Appendix 26

**Matured Liabilities and penalty interest under the Prompt Payment of Accounts Act, 1997.**

<table>
<thead>
<tr>
<th></th>
<th>2007 (€000’s)</th>
<th>2006 (€000’s)</th>
<th>2005 (€000’s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Matured liabilities</td>
<td>48,209</td>
<td>19,228</td>
<td>7,819</td>
</tr>
<tr>
<td>Penalty interest</td>
<td>534</td>
<td>704</td>
<td>452</td>
</tr>
<tr>
<td>under Prompt Payments</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Act,(^{58})</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

---

\(^{58}\) Source – Annual Appropriation Accounts, 2005-2007
Appendix 27

Summary of interviews with the Department of Health and Children, the Department of Finance, the Comptroller and Auditor General and the HSE

Introduction
The Chairman wrote to the Secretary General, Department of Finance, the CEO of the HSE and the Comptroller and Auditor General inviting their input to the work of the Group. All three organisations nominated people from their organisation to make this input. These people were interviewed by the Chair, accompanied by a member of the Secretariat. In addition the Chairman discussed the issues with the Secretary General of the Department of Health and Children and a number of his key staff. A list of the people interviewed is attached.

It was recognised that that the requirement to produce two sets of accounts was unusual, and added to the complexity of financial management and oversight. There were no suggestions that the Income and Expenditure Accounts or the Appropriation Accounts needed to be changed. However it was accepted that some additions and clarifications to the notes to the Annual Financial Statements would be helpful both to the general reader and policy makers. In summary the key points made were as follows:

Department of Finance
The Department of Finance required a clear statement of what control systems are in place at present and what is happening currently in respect of creditors, thus allowing consideration of whether it is necessary to alter the controls, whether to control Cash or to control Expenditure, or both, and a reasonable approach to controlling what was happening could be identified.

The Department considered it important that the real outturn situation be known and made available at a much earlier stage the following year than is currently the case.

The Department required that the system of accounting should be able to show how money allocated for particular purposes was used for that purpose and held the view that implementation of a new Vote structure proposed by the Department of Finance (Appendix 4 indicating the monies to be directed to each service) would provide a basis for such monitoring.

The Department of Finance required that the roles and responsibilities of the CEO and Accounting Officer, in the context of legal opinion obtained by the HSE which had raised questions over the respective roles, should be clarified.
Appendix 27

Comptroller and Auditor General
The Office of the Comptroller and Auditor General strongly expressed the view that in the event that some system of expenditure determination or allocation was to be introduced for the HSE the relevant amounts should be determined by a body other than the HSE, e.g. the Department of Health and Children or the Department of Finance.

Department of Health and Children
The Department of Health and Children wished to ensure that the HSE understand the primacy of Vote reporting and adapt its budget and management systems to support a system of Vote reporting.

The Department desired to be able to relate more easily the two sets of Accounts, the Income and Expenditure Account and the Vote Account, and to be able to monitor the cost of Existing Level of Service more easily.

The Department sees a need for the HSE to set budgets and allocations at year start to feed into activity levels for the year. The Department also requires monthly cash profiles broken down by budget holder, by hospitals, by local health office, by demand led schemes, from the start of the year, and also to be updated regularly on the position concerning the overdrafts of the Agencies and Voluntary Hospitals.

The Department sought improved timeliness in the presenting by the HSE of its activity reports, as it viewed that the current two month time lag between the availability of the expenditure report and the activity report militates against timely corrective action being considered and undertaken.

Some issues around the treatment of minor capital were identified [these were resolved from April, 2008].

Response from the HSE including information on its accounting systems
The response of the HSE to some of the issues raised, particularly in terms of the capability of its current accounting systems, is reflected in the text of Chapter 5.

The HSE also pointed to technical difficulties with monthly reporting on creditors, mainly due to the fact that some of the accounting systems are less advanced than others.
Appendix 27

List of people interviewed

Department of Finance

Mr. Donal McNally, Second Secretary General
Mr. John O’Connell, Assistant Secretary
Mr. Tom Heffernan<sup>59</sup>, Principal Officer

Office of the Comptroller and Auditor General

Mr. Gerry Smyth
Mr. John Crean

Department of Health and Children

Mr. Dermot Smyth<sup>59</sup>
Mr. Tom Mooney<sup>60</sup>
Mr. Dermot Magan<sup>61</sup>
Mr. Eunan Watters

Health Service Executive

Ms. Maureen Cronin
Ms. Valerie Plant
Mr. Mark Fagan

<sup>59</sup> Also a member of the Working Group
<sup>60</sup> Mr. Tom Mooney was a member of the Working Group up to his retirement on 4<sup>th</sup> April 2008
<sup>61</sup> Mr. Dermot Magan was a member of the Working Group up to his retirement on 3<sup>rd</sup> April 2008