Appropriation Account 2014

Vote 39

Health Service Executive

Introduction

As Accounting Officer for Vote 39, I am required each year to prepare the appropriation account for the Vote, and to submit the account to the Comptroller and Auditor General for audit.

In accordance with this requirement, I have prepared the attached account of the amount expended in the year ended 31 December 2014 for the salaries and expenses of the Health Service Executive and certain other services administered by the Executive, including miscellaneous grants.

The expenditure outturn is compared with the sums granted by Dáil Éireann under the Appropriation Act 2014, including the amount that could be used as appropriations-in-aid of expenditure for the year.

A surplus of €26.8 million is liable for surrender to the Exchequer.

The Statement of Accounting Policies and Principles and notes 1 to 6 form part of the account.

The Health Service Executive (Financial Matters) Act 2014 was enacted by the Oireachtas in July 2014. The main provisions of the Act are as follows

- The HSE ceased to have a separate appropriation vote from 1 January 2015 and became part of the vote of the Office of the Minister for Health.
- The Act sets out a new statutory financial and service plan governance framework which will align with the new vote arrangements.
- The Director General of the HSE is no longer an Accounting Officer from 1 January 2015 and becomes an Accountable Person as set out in the legislation from 1 January 2015. The Director General remains Accounting Officer for the HSE for the years 2005 to 2014.
- The Act provides for the amendment of the Valuation Act 2001 to exempt the HSE from the payment of local authority rates on land/buildings occupied by the HSE.

The 2014 appropriation account for the HSE is the final appropriation account of the HSE. This account has been prepared on the basis that certain suspense account balances have been charged/credited to the account in 2014 as in the normal course of events these balances could take a number of years to wind down. In 2014, debit balances totalling €36.8 million and credit balances of €41.2 million were surrendered. The net effect was an increase of €4.4 million in the surplus to be surrendered. Other suspense account balances which fell for payment/receipt early in 2015 remain in the statement of asset and liabilities at 31 December 2014 and have been discharged in 2015. I confirm that the final surplus to be surrendered of €26.8 million will be surrendered to the Exchequer in 2015.

Tony O'Brien
Accounting Officer
Health Service Executive

18 September 2015

Statement on Internal Financial Control

This Statement on Internal Financial Control represents the position for the year ended 31 December 2014.

Responsibility for the system of internal financial control

The Health Service Executive (HSE) was established by Ministerial order on 1 January 2005 in accordance with the provisions of the Health Act 2004, as amended by the Health Service Executive (Governance) Act 2013. The HSE must comply with directives issued by the Minister for Health under the Acts.

The HSE Directorate is accountable to the Minister for Health for the performance of the HSE. The Health Service Executive (Governance) Act 2013 allows the Minister for Health to issue directions to the HSE on the implementation of Ministerial and government policies and objectives and to determine priorities to which the HSE must have regard in preparing its service plan.

The Directorate is the governing body of the Executive with authority, in the name of the Executive, to perform the functions of the Executive. The Directorate may delegate some of the functions of the Executive to the Director General. The Directorate may establish committees to provide assistance and advice in relation to the performance of its functions. The Directorate has established a number of Committees including an Audit Committee and a Risk Committee, each of which comprises one appointed Director and external nominees.

The Directorate has responsibility for major strategic development and expenditure decisions. Responsibility for operational issues is devolved, subject to limits of authority, to executive management.

In addition to his functions as a member of the Directorate and as the chairperson of the Directorate, the Director General's functions include carrying on, managing and controlling generally the administration and business of the Executive. The Director General is the Accounting Officer for the HSE for the period ending 31 December 2014. The Vote of the HSE was disestablished on 1 January 2015, in accordance with the provisions of the Health Service Executive (Financial Matters) Act 2014. The Director General is accountable to the Minister on behalf of the Directorate for the performance by the Directorate of its functions and those of the Executive.

The Directorate has overall responsibility for the HSE's system of internal financial control and for reviewing its effectiveness. The system of internal financial control is intended to provide reasonable assurance that organisational objectives, including propriety, regularity and the safeguarding of assets will be achieved. Management at all levels of the HSE is responsible to the Director General for the implementation and maintenance of internal financial controls over their respective functions. This embedding of the system of internal financial control is designed to ensure that the HSE is capable of responding to business risks and that significant control issues, should they arise, are escalated promptly to appropriate levels of management. A system of internal financial control is designed to reduce rather than eliminate risk. Such a system can provide only reasonable and not absolute assurance that assets are safeguarded, transactions are authorised and properly recorded and that material errors or irregularities are either prevented or detected in a timely manner.

Basis for statement

I as Accounting Officer and Chairman of the Directorate make this statement in accordance with the requirement set out in the Department of Public Expenditure and Reform's *Code of Practice for the Governance of State Bodies* and in the *Public Financial Procedures* of the Department of Public Expenditure and Reform.

Financial control environment

The HSE spends public funds on the provision of health and personal social services to the population of Ireland. The duties relating to total expenditure of €13.6 billion incurred by the HSE in 2014 are stringent in terms of accountability and transparency in order to fulfil our responsibility for funding received from the Exchequer and other sources in this respect. These duties are set out in the Health Act 2004 as amended by the Health Service Executive (Governance) Act 2013 and in the Public Financial Procedures of the Department of Public Expenditure and Reform.

The system of internal financial control is by its nature dynamic. It is continually developed, maintained and monitored in response to the emerging requirements of the organisation. The current systems environment in the HSE presents additional challenges to the effective operation of the system of internal financial control. Devolved financial systems are multiple and fragmented and numerous external reviews have reiterated the consensus amongst the finance community in the HSE that the current financial systems are not fit for purpose. The financial systems are not capable of providing the level of detailed analysis of Vote expenditure which is required by Government Accounting rules. The HSE relies on an interim reporting solution to support all national level financial reporting, including monthly management reports, the Annual Financial Statements and the Appropriation Account. This system imports data from 12,000 cost centres per month from HSE legacy systems and is manually reanalysed to support national reporting. The absence of a single national system requires that significant work is undertaken manually to ensure that the local ledgers and the national system are synchronised and reconciled. This reporting approach is becoming increasingly challenging in the light of changes to organisation structure and the ageing of the systems.

The HSE's Finance Reform Programme initiated in 2013 is addressing these challenges. Implementing a new finance operating model provides an opportunity to completely transform the financial management of the health system and will support the delivery of key elements of the reform agenda of *Future Health – A Strategic Framework for Reform of the Health Service 2012-2015*, including introducing Hospital Groups, Community Healthcare Organisations, and activity-based funding 'Money Follows the Patient'. The fundamental changes in healthcare heralded by *Future Health* have amplified the need to address these challenges. Phase 1 of the programme is complete and this included the development of a new finance operating model. The new operating model will require far reaching and fundamental change in financial management practice and will be an important enabler of wider systems reform. Underpinned by a single integrated financial management system and a mandated financial management framework, these changes will support financial stability within a reformed health system and will drive a culture of collective responsibility and cost consciousness. Phase 2 began in December 2013 and a key element of this phase is to secure the necessary approval to procure a new integrated financial management system for the health service to underpin the new finance operating model. A formal process commenced in September 2014 to present the high level requirements of the integrated financial management system and to begin market testing. While the proposals for a new system progress through the approval process, existing systems improvement initiatives continued in 2014, including the development of a standardised common chart of accounts and enterprise structure. This systems development will build on existing efforts to overcome systems and reporting challenges faced by the new National Divisions and emerging Hospital Groups and Community Healthcare Organisations.

Key internal financial control procedures

Key processes and procedures, designed to provide effective internal financial control are set out below under the following headings

- governance and financial procedures
- directorate oversight
- planning, performance monitoring and reporting
- risk management
- controls over medical card eligibility
- governance of grants to outside agencies.

Governance and financial procedures

- The HSE's **Framework for Corporate and Financial Governance** is set out on www.hse.ie, and includes all supporting policies, procedures and guidelines which underpin the Framework. The Framework was approved by the Minister for Health in accordance with Section 35 of the Health Act 2004 and reflects the requirements of the Code of Practice for the Governance of State Bodies. Staff are required to have full knowledge of their responsibilities which are clearly outlined in part II of the Framework and that it is against this that all compliance is benchmarked.
- There is 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.
- The HSE's **National Financial Regulations** form an integral part of the system of internal financial control and have been prepared to reflect current best practice. Particular attention has been given to ensure that the Financial Regulations are consistent with statutory requirements, Department of Public Expenditure and Reform circulars and public sector guidelines. The National Financial Regulations set out the financial limits, by staff grade, for procurement contract approval, revenue and capital expenditure and property transactions. Compliance with National Financial Regulations is mandatory throughout the organisation. The development and maintenance of the HSE's suite of National Financial Regulations is an ongoing process, with new regulations and updates to existing regulations issued periodically in response to new or emerging requirements. While policies and regulations are nationally standardised, internal processes are largely systems-driven, and variations in process remain unavoidable until such time as the HSE has implemented a single organisation-wide financial system.
- A detailed **standardised appraisal process** is conducted for all capital projects (excluding property acquisitions and disposals) budgeted in excess of €0.5 million. The Health Service's National Capital Steering Committee appraises all projects to be included in the Capital Plan in accordance with the Department of Public Expenditure and Reform's *Public Spending Code* (2012). Project applications must be accompanied by detailed project briefs including a needs assessment, a detailed capital appraisal or a cost benefit analysis, life cycle costs, projected capital budget and revenue and staffing implications. The National Capital Steering Committee validates the submissions received, checks alignment with the Health Service's National Service Plan, examines revenue implications (if any), and may reject, request additional information or recommend for inclusion in the Capital Plan subject to availability of capital funding. All proposed major capital projects which are budgeted in excess of €20 million are subject to a detailed **cost benefit analysis** carried out in accordance with the *Public Spending Code*. Leadership Team/Directorate reviews of the capital programme take place on a regular basis. All Service Divisions are represented on the National Capital Steering Committee.

- **Procedures for property acquisitions and disposals** by the HSE comply with the legal obligations set out in Sections 78 and 79 of the Health Act 1947, as amended by the Health Act 2004. The Head of Estates has authority to approve proposed property transactions up to a limit of €2 million, once recommended for approval by the Property Review Group. Transactions in excess of this amount must be approved by the Director General, once recommended for approval by the Property Review Group and endorsed by the Leadership Team. Transactions in excess of €2 million once approved by the Director General must then be submitted to the Directorate for final approval. Any disposal of property below market value requires approval of the Directorate.
- The HSE has put in place procedures designed to ensure **compliance with all pay and travel circulars issued by the Department of Public Expenditure and Reform.** Any exceptions identified are addressed and are reported on an annual basis to the Minister for Health, in accordance with the Code of Practice for the Governance of State Bodies.
- A **devolved budgetary system** is in place with senior managers charged with responsibility to operate within defined accountability limits and to account for significant budgetary variances to the Director General within a formal performance monitoring framework (National Planning, Performance Assurance Group process), described in further detail below.

Directorate oversight

A new **Audit Committee** with an independent chair and comprising a member of the Directorate and four external members was appointed in January 2014, in accordance with the provisions of the Health Service Executive (Governance) Act 2013. The Audit Committee is appointed by the Directorate. It acts in an advisory capacity and has no Executive function.

A new **Charter of the HSE Audit Committee**, setting out in detail the role, advisory duties and authority of the Committee, along with certain administrative matters, was adopted by the Committee in early 2014. The focus of the Audit Committee, in providing advice to the Directorate and the Director General, is on the regularity and propriety of transactions recorded in the accounts, and on the effectiveness of the system of internal financial controls operated by the HSE. In order to discharge its responsibilities, the Committee agreed a work programme for the year reflecting the Committee's Charter. In accordance with this work programme, the Committee received regular reports and papers from the Chief Financial Officer and the National Director of Internal Audit, both of whom attended Committee meetings regularly along with senior members of their teams. The Committee provides its advice to the Directorate principally by means of the minutes of its meetings. These minutes are made available to, and tabled at, meetings of the Directorate following the relevant Audit Committee meetings. The Audit Committee maintains a log of its agreed actions and reviews the progress of management in addressing those actions. The Chairman attended one meeting of the Directorate to provide the Audit Committee's advice in relation to the HSE's 2013 financial statements prior to their approval by the Directorate.

The Audit Committee met on nine occasions in 2014 and a joint meeting of the Audit Committee and Risk Committee took place on one further occasion. The Chairman of the Audit Committee also had individual meetings periodically throughout the year with the Director General, the Chief Financial Officer, senior members of the Finance team, the National Director of Internal Audit and his senior managers, other senior managers and the Chairman of the Risk Committee. The Chairman met with representatives of the Office of the Comptroller and Auditor General, who attended meetings of the Audit Committee periodically and had direct access to the Committee Chairman at all times.

A new **Risk Committee** was established in 2014, in accordance with the provisions of the Health Service Executive (Governance) Act 2013. The Risk Committee, which reports to the Directorate, has an independent chair and comprises a member of the Directorate and four external members. The Committee operates under agreed Terms of Reference and focuses principally on assisting the Directorate in fulfilling its duties by providing an independent and objective review of non-financial risks. The Committee kept its terms of reference and work programme under review during the year.

The Committee considered the Corporate Risk Register, Divisional risk management plans, the HSE's Health and Safety function, internal audit reports concerning the effectiveness of non-financial internal controls and HIQA reports, including the implementation of HIQA recommendations. The National Director for Quality and Patient Safety attended the Committee meetings to provide assurance on the effectiveness of the systems established by management to identify, assess, manage, monitor and report on risks.

Liaison between the Risk Committee and Audit Committee is facilitated by periodic joint meetings of the two committees, one such meeting was arranged in 2014, and regular engagement between the two Committee chairs. Minutes of the meetings of each committee are shared reciprocally. The Risk Committee of the Directorate met on six occasions in 2014.

The HSE has an **Internal Audit** Division with appropriately trained personnel which operates in accordance with a written charter/terms of reference which the Directorate has approved. The National Director of Internal Audit reports to the Director General of the HSE through the Chairman of the Audit Committee and has a close working relationship with the Director General and is a member of the HSE leadership team. The Audit Committee is responsible, along with the Director General, for guiding, supporting and overseeing the work of the HSE's Internal Audit Division. Work of the National Director of Internal Audit and his team is informed by analysis of the financial risks to which the HSE is exposed. Annual Internal Audit plans, approved by the Audit Committee, are based on this analysis. These plans aim to cover the key risks and related controls on a rolling basis. IT audit services are engaged by the Division to assist in the conduct of specialist audits and Deloitte were appointed to conduct this work. The National Director of Internal Audit attends all Audit Committee meetings, and has regular meetings with the Chairman of the Audit Committee and the Director General.

During the year the Audit Committee reviewed reports from Internal Audit including the following

- Internal Audit work plan for 2014
- summary activity reports
- summary Internal Audit reports and findings for Q3 and Q4 2013 and for Q1, Q2 and Q3 2014
- Internal Audit recommendation implementation tracking reports
- KPIs and performance reports.

During 2014, the Audit Committee worked closely with the National Director of Internal Audit to develop further and improve the **Internal Audit Charter**, the division's KPIs and the format of the summary reports and recommendation implementation tracking reports issued by Internal Audit. Emphasis has been placed on having reports, summaries and trackers highlight potentially systemic financial control issues identified in audits, in order to allow the Directorate better focus senior management attention on any such issues. Procedures are in place to ensure that the recommendations of Internal Audit are followed up. Any instances of fraud or other irregularities identified through management review or audit are addressed by management and An Garda Síochána are notified. The HSE's Fraud Policy was reviewed and revised during the year. During the year, Internal Audit agreed a protocol with the Audit Committee and the Risk Committee so that any non-financial risk issues identified in audits would be reported to the Risk Committee.

Monitoring **and review of the effectiveness of the system of internal financial control** is informed by the work of the Internal Audit division, the Comptroller and Auditor General, the Audit Committee and the Directorate. Comments and recommendations made by the Comptroller and Auditor General in his management letters or other reports, such as reports of the Committee of Public Accounts are reviewed by the Directorate and Leadership Team and actions are taken to implement recommendations. Monitoring and review of their implementation is overseen by the Audit Committee.

Planning, performance monitoring and reporting

Planning takes place at several levels within the HSE and takes into account internal and external guidance provided through, for example, the Government's reform agenda, *Future Health*, the Department of Health's Statement of Strategy, national policy documents, specific strategies, economic forecasts and clinical and quality priorities. In line with Section 31, Health Act 2004 and Section 12, Health Service Executive (Governance) Act 2013 a HSE **National Service Plan** is published each year, and contains information on the type and volume of service activity that is needed in order to deliver health and personal social care services, within the annual funding allocation. It includes performance indicators and activity measures (PIs) which are tracked and reported through the National Planning, Performance Assurance Group (NPPAG) process. The PIs are reviewed each year as part of the service planning process to check that they are still relevant, collectable and useful. In developing the plan, service managers reflect the type and level of service that is estimated to be required and can be delivered within the resources that are available in the year. Progress and outcomes against this plan are reported fully in the HSE Annual Report and Financial Statements. The 2014 National Service Plan was submitted to the Minister for Health on 25 November 2013 and the plan was approved by the Minister on 16 December 2013. The 2015 National Service Plan was submitted to the Minister for Health on 18 November 2014 and approved by the Minister on 26 November 2014.

To underpin the National Service Plan, **Divisional Operational Plans** 2014 for Acute Hospital, Health and Wellbeing, Primary Care, Mental Health, and Social Care Divisions were published. These support overall implementation, setting out a national and regional/hospital group position for each Division.

During 2014, as part of the overall planning and performance framework, the **National Planning, Performance Assurance Group** (NPPAG) met monthly, chaired by the Deputy Director General. As the principal planning and performance assurance group, NPPAG is responsible for

- ensuring the systems, controls and processes are in place to provide appropriate levels of assurance to the DG, the Directorate and the Minister that the HSE is delivering on its National Service Plan commitments
- undertaking a monthly review of performance across the organisation, including a detailed financial performance review
- managing the performance escalation and intervention process
- participating in the service planning process
- considering the draft version of the HSE's monthly performance assurance report for submission to the DG and HSE Directorate after which it is submitted to the Department and published.

The core membership of the NPPAG includes the CFO and all those who are responsible and accountable for budgets and service delivery.

To support performance assurance, a robust management process takes place in preparation of the monthly NPPAG meeting, following which the Deputy DG meets with the DG to review the draft Performance Assurance Report (PAR), prior to the report being tabled for a meeting of the Leadership Team at which it is formally considered. The draft PAR is also shared with the Department of Health. The Directorate, as the governing body for the HSE, considers the report at its monthly meeting. Once approved, the appropriate reports are formally submitted to the Secretary General of the Department of Health, to comply with reporting requirements to the Minister for Health (Health Act 2004) and published on www.hse.ie.

In August 2014, the governance and performance at regional level was transitioned to align into the new organisational design as part of the overall health system reform programme. This has resulted in operational responsibility to Community Healthcare Organisation (CHO) Chief Officers and Hospital Group CEOs.

As part of the strengthened accountability arrangements for 2015, a new **National Performance Oversight Group** (NPOG) was established and replaced the NPPAG. The Group, chaired by the Deputy Director General, has formal delegated authority from the Director General to serve as a key accountability mechanism for the health service and to support him and the Directorate in fulfilling their accountability responsibilities. National Directors continue to be directly accountable to the Director General for their performance and that of their Divisions.

It is the responsibly of the NPOG as a part of the overall accountability process to hold each National Director as the head of their Division to account for performance against the National Service Plan, under the four Balanced Score Card quadrants of Quality and Safety, Finance, Access and Workforce.

The introduction of an **Accountability Framework** as part of the HSE's overall governance arrangements is an important development and one which will support the implementation of the new health service structures. Many of the accountability processes are already in place and have operated over a number of years. The main developments in 2015 are

- strengthening of the performance management arrangements between the Director General and the National Directors and between the National Directors and the newly appointed Hospital Group CEOs and the CHO Chief Officers
- the introduction of formal Performance Agreements between the Director General and the National Directors and between the National Directors and the Hospital group CEOs and the CHO Chief Officers
- the introduction of a formal escalation and intervention process for underperforming services which will include a range of sanctions for significant or persistent underperformance
- new national level management arrangements for the new CHO Chief Officers
- the establishment of the National Performance Oversight Group to replace the National Planning, Performance and Assurance Group (NPPAG).

Timely and comprehensive reports about how services are performing against various targets, including financial targets, enable HSE staff and managers to increase service efficiency and effectiveness. These include

- CompStat (monthly web – enabled reports at hospital, hospital group and community/local health office (LHO) level) – Performance information within CompStat underpins the monthly Regional CompStat/Performance Assurance Fora chaired by the RDPI. The Regional Forum is attended by senior clinical and management personnel from hospitals and LHOs. Operational performance across key operational metric areas is reviewed and performance improvement plans are agreed. A change in structure and governance mid 2014 resulted in the regional performance assurance role passing from the RDPIs to the Divisional Directors who exercised their oversight through the hospital managers and ISA managers. This dovetailed with the structures put in place under the accountability framework for 2015.
- Monthly regional Performance Exception Reports are aggregated to produce a report to inform the Deputy DG of regional issues in advance of the NPPAG.
- The monthly PAR, drawn from the corporate activity, HR and Finance data sets, and informed by the regional reports is the primary paper considered by the NPPAG for performance assurance. This is supplemented by detail in a Management Data Report (MDR).

In addition, as part of the performance assurance process, the following key reports are compiled and published

- HSE **Annual Report and Financial Statements** – produced and published each year to give an overview of performance for the preceding year. It is a comprehensive report on the organisation's activity, achievements, challenges and financial performance as set out in its National Service Plan. Through the audited financial statements, the HSE accounts for use of resources allocated from Government. The HSE Annual Report is a legal requirement under section 37 (Health Act 2004). Unlike other documents and reports required under the Health Act, the Minister is not required to approve the Annual Report. The report is published online at the end of June each year.
- The HSE **Appropriation Account** – prepared by the HSE and audited by the Comptroller and Auditor General is published in his Annual Report. The Appropriation Account is a comprehensive account of the HSE's financial performance in the year, prepared under Government accounting rules.

A **monthly dashboard** is provided to the CFO reporting on key performance and risk areas as follows

- I&E financial results: Performance against budget by hospital group, division and national services
- Vote results: A two month rolling view of Vote performance against subhead
- Key Income KPI's: This includes claims submitted, claimed, pended or awaiting consultant action in addition to total claims by insurer rolling over a three month period and metrics around the top ten poorest performing hospitals.

The **monthly management accounts** provide a detailed view of the organisations financial performance against budget. The accounts include but are not limited to the following

- acute performance by hospital group and region
- performance by national division and by region
- Primary Care Reimbursement Service – performance by scheme
- National Services – performance by function
- corporate – performance by function
- pay, non-pay and income performance against profile.

A **commentary and analysis** accompanies the management accounts which provide context and commentary around emerging or existing trends and divisional performance.

A detailed **financial performance and outlook document** is produced each month for consideration by the CFO. This document outlines the key risk areas for the organisation in addition to illustrating likely scenarios regarding the financial challenge for the year. The report covers acute and divisional financial outlook for the year and separately highlights key organisational risk areas as well as offering scenarios relating to budgetary overruns based on detailed engagement with services. This detailed financial performance and outlook document is also shared with Government and members of the Health Service Directorate and is a key part of the performance management process.

The HSE is required to submit a **monthly vote issues report** and return to the Department of Health for transmission to Department of Public Expenditure and Reform (DPER). The monthly issues report and return is due five days before each month end and is an estimate of monthly vote expenditure compared to the monthly vote profile (budget). The issues returns from all Votes are consolidated by DPER and the Department of Finance and published on the 2nd or 3rd working day of each month as part of the monthly Exchequer Returns.

The HSE is also required to submit **monthly vote expenditure report** and return by the 5th working day of each month. This return reports actual vote expenditure by Subhead compared to the monthly vote profile (budget). Both the monthly vote report and return are signed by the Accounting Officer.

A **monthly Cash Report** is generated by the Treasury Unit that includes metrics from a number of sources, including the Cash Forecast model, to give early indications of the year-end position. This report forms part of the agenda of monthly meetings with the Department of Health and DPER. The report outlines the cash trends from a number of angles, giving early indications of the success or otherwise of cost containments plans to date as well as full year possible out-turns based on best case scenario to the most likely scenario.

The **Business Information Unit** (BIU) is the central repository within the HSE of activity information for acute and community services. Extensive amounts of data are collected, collated, validated and analysed by this unit. This data is used in performance monitoring and measurement which influences the HSE in taking both operational and strategic decisions.

Data returns are primarily based on the activity and targets as set out in the current year's National Service Plan. This data is collated and quality assured by divisional analysts. In addition, the analysts prepare graphs which identify trends in the performance of each Division and track service delivery against target. Where there are inconsistencies in data returns, queries are referred to the Business Managers to validate accuracy of information received. Queries are followed up by the team and information is validated with the services to ensure that data received is accurate.

Risk management

The HSE recognises the importance of **risk management, including financial risk management,** as an essential process for the delivery of quality and safe services. Risk management at an operational level is a line management function. Each Division is required to describe accountability arrangements for managing risk at all levels within the Directorate. These arrangements are part of the normal reporting mechanism to ensure that risk management is embedded into the business process. Each service/function is obliged to identify, assess and manage risk relevant to their area; the risk register is the principal tool to enable communication of this risk information. Where risks are identified that have significant potential to impact on the overall objectives of the HSE they are recorded on the Corporate Risk Register. The register is a mechanism to provide assurance (evidence) to the Directorate that risk is being identified, assessed and managed and that a range of control measures and action plans are in place at any time to mitigate the risks identified. Regular reports on the status of the corporate risks are submitted to the Risk Committee. The full suite of HSE risk management policies, procedures and guidelines are published on www.hse.ie.

The financial impact of clinical and operational incidents is reflected in cases settled by the State Claims Agency (SCA) and by insurers, on behalf of the HSE. The responsibility for management of clinical negligence, personal injury and property damage claims against the HSE has been delegated to the SCA under statute. The SCA also provides advice and assistance to HSE risk management, clinical and administrative personnel with the aim of supporting patient safety and reducing future claims and litigation. Where claims do arise the objective is to manage these claims so as to ensure that the State's liability and associated expenses are contained at the lowest achievable level. The SCA hosts an **electronic national adverse events management reporting system** which facilitates the investigation of any subsequent claims and also the identification and analysis of developing trends and patterns. The intention is that the lessons learned from this analysis support the improvement of patient safety and contribute to the reduction of claims in the HSE. Annually, the SCA plans and implements risk management work programmes based on claims and incident data trend analysis, legal requirements and precedents and recent developments in litigation risk management, nationally or internationally. A comprehensive programme of training and seminars was delivered by the SCA's risk management units during 2014. The SCA provides insurance advice on HSE contracts, licences, schemes and tenders in circumstances where State indemnity applies or on insurances required where it does not apply. This ensures that the State's liabilities are minimised in the most cost effective manner.

Controls over medical card eligibility

The scale of costs within the Medical Card and Primary Care Schemes and the volume of transactions associated with them means that there are potential areas of risk that need to be managed.

Eligibility to receive a medical card, in general, depends on an assessment of an applicant's means. This assessment is completed upon initial application for a medical card and an assessment is also repeated periodically to confirm continuing eligibility. Most medical cards are awarded for three years following eligibility assessment. However, eligibility may cease upon a change in circumstance and therefore a review of eligibility may be initiated during the eligibility period to confirm continuing eligibility.

During 2013, new legislation was enacted to enable the sharing of information with the Revenue Commissioners and with the Department of Social Protection. As soon as the information became available from the Revenue Commissioners, it was incorporated into the risk analysis process and it assisted with the determination of the review approach to adopt. The extent and quality of information sharing for the purposes of control over medical card eligibility continues to develop.

Renewal notice reviews

At 1 January 2014, there were 1,849,380 full medical cards and 125,425 GP visit cards in issue. During 2014, 1,005,299 cards were due to expire in monthly tranches. The full cohort of each monthly tranche which was approaching expiry was subject to a risk analysis to determine the review approach to adopt in each case. Renewal notices issued in relation to 631,630 persons. Renewal notices were not issued to the remaining 373,669 persons as it was concluded on the basis of risk assessment (which included data from the Revenue Commissioners) that those persons were at low risk or at no risk of being ineligible, and eligibility in those cases was extended for a further one year. Renewal of a medical card can be done by way of a full review of eligibility by the HSE or by cardholder self-assessment depending on the relative risk identified during the risk assessment process. Of the 631,630 renewals issued in 2014, 152,297 involved a full review and 479,333 requested the cardholder to self-assess.

As at April 2015, the assessment of eligibility had been concluded in relation to 472,794 (74.85%) cardholders

- continuing eligibility was confirmed in relation to 465,268 cards (98.4%)
- 7,526 cards were not renewed (1.6%) because the eligibility criteria e.g. income thresholds were not met
- in 3,526 cases (0.56%) the cardholder was deceased
- almost 125,963 (19.94%) of the cards selected for review were not renewed because the cardholder did not respond to the renewal process
- the assessment of eligibility was on-going in relation to 29,347 cards (4.65%).

Targeted reviews

A review is 'targeted' when it is initiated during the eligibility period rather than when the card is due for renewal. During 2014, the HSE issued 58,422 targeted reviews. As at April 2015, the assessment of eligibility had been concluded in relation to 49,633 cardholders

- continuing eligibility was confirmed in relation to 49,144 cards (99% of the completed assessments)
- eligibility was removed in 489 cases (1% of the completed assessments) because the eligibility criteria e.g. income thresholds were not met.

In a further 5,631 (9.6%) of targeted reviews, medical cards were not renewed because the cardholder did not respond to the renewal process. The assessment of eligibility was on-going in relation to 600 cards and in 2,558 cases the cardholder was deceased.

The total number of persons reviewed during 2014 was 690,052

Residence confirmation

In addition to the review of eligibility outlined above, the HSE also uses risk assessment to determine when to seek confirmation of residence in the State in relation to inactive cards.

During 2014, 96,902 individuals whose medical cards had been inactive were contacted requesting residence confirmation. As at April 2015, 71,823 individuals (74.12%) had confirmed residence. Eligibility was removed in relation to 25,079 cards (25.88%).

Overall ineligibility rate

The non-renewal and ineligibility rates found as a result of the risk based targeted reviews are likely to be higher than those applying to the population of medical card holders as a whole. The HSE does not currently have a reliable estimate of the level of ineligibility across the population of card holders. Options for developing a methodology to produce reliable estimates are being examined.

Governance of grants to outside agencies

In 2014, over €3.4 billion of the HSE's total expenditure related to grants to voluntary agencies. The legal framework under which the HSE provides grant funding to agencies is set out in the Health Act 2004.

Audit findings in previous years indicated control weaknesses in the governance of grants, in particular relating to the monitoring and oversight of agencies in receipt of exchequer funding, including

- insufficient evidence of formal monitoring and oversight of the agencies by the HSE
- lack of review and reconciliation of grantee financial statements to HSE records
- weaknesses in the systems of internal financial control within those agencies receiving Exchequer funding from the HSE
- HSE procedures for processing grants in use by the local health offices were in draft format.

Policies and procedures in place for the governance of grants to agencies include the following

- The HSE has a formal **national governance framework** with national standardised documentation which governs grant funding provided to non-statutory organisations. This governance framework seeks to ensure the standard, consistent application of good governance principles which are robust and effective to ensure that both the HSE and the grant-funded agency meet their respective obligations.
- It is the policy of the HSE to have properly executed **governance documentation** in place with each grant-funded agency in a timely manner. This policy is outlined in the National Financial Regulation, *NFR-31 Grants to Outside Agencies* and detailed in a comprehensive operational manual. The national standard governance documentation, operating procedures, guides and process control forms are maintained on the HSE's intranet site. However, the extent of the financial challenge in 2014 and the additional focus on compliance adversely impacted the timeliness of the final sign-off of arrangements.
- Both the governance documentation and the operating procedures detail the requirements for performance review, including submission and review of financial statements and periodic performance review meetings with agencies on a proportionate basis.

Further development and improvement of pre-existing controls took place in 2014, including

- A **Compliance Unit** has been established to provide programmatic oversight of the arrangements in place with the voluntary providers funded by the HSE. The Compliance Unit will place particular emphasis on issues raised and recommendations made by both the C&AG and the HSE's Internal Audit unit. In terms of monitoring and oversight, the Compliance Unit has established two working groups – one at corporate level and one at operational level – that will intensify the overall focus on this area.
- The **national standard service arrangement** has been revised during 2014 to incorporate the changes necessary to include updates to the regulatory requirements of agencies in receipt of Exchequer funding, including the provision of more accessible and transparent financial information particularly in relation to senior staffing salaries. Agencies' requirement to comply with public procurement is and was a condition of the service arrangement. Each service arrangement reflects the complexity of the services provided and includes corporate and clinical governance requirements, quality standards and codes of practice for services, and financial controls.

- The HSE has expanded the management, governance and engagement with the Section 38 funded agencies by the introduction in 2014 of an **annual compliance assurance process**. The governing bodies of each Agency have been requested to perform an internal audit of their organisation's internal control frameworks and processes to ascertain their ability to comply with the conditions of the HSE service arrangement, and have provided the HSE with a signed declaration of their position in this regard. This process which included the submission of financial statements has been completed by all Section 38 agencies and the HSE is engaging with each agency to address identified areas of non-compliance. To support the agencies, the HSE has hosted a national forum for all Chairs of the agencies' governing bodies to provide information and guidance, partnering with appropriate regulatory bodies such as the Office of the Director of Corporate Enforcement to support them in their accountability responsibilities.
- All Section 38 agencies have signed the a**nnual compliance statement** in respect of 2013. These compliance assurance statements have been reviewed by the Compliance Unit and a template for 2014 has been issued to all agencies, informed by the review process. It includes an additional section on subsidiary companies.
- The HSE has also developed a **national standard service specification template** with the disability sector which allows a high level of visibility and management control of individual centres of service delivery and the resources expended to deliver those services. These developments will allow the HSE to advance the strategies outlined in *Future Health*, and enable the development of a "money follows the patient" funding model.
- A national IT system, **Service Provider Governance On-Line**, was rolled out to support the local managers in their accountability responsibilities relating to the governance of grants.

Significant breaches of the control system in 2014

Compliance with procurement rules

In procuring goods and services, all areas within the HSE must comply with the relevant procurement procedures which are set out in detail in the HSE's National Financial Regulations.

In 2014 and in previous years, audits have identified a significant level of non-compliance with procurement rules, in particular where requirements for market testing, tendering or competitive processes were not observed.

The HSE is required to submit an annual return (the 40/02 return) to the Comptroller and Auditor General and the Department of Public Expenditure and Reform by 31 March in relation to the prior financial year. This return must disclose details of any contracts in excess of €25,000 (exclusive of VAT) which have been awarded without a competitive process. The HSE does not have an automated centralised system capable of identifying contracts awarded without a competitive process. Rather, it relies on individual areas to manually self-assess and identify and report such non-compliance. The HSE's 40/02 return for 2014 indicates that 299 contracts in excess of €25,000, with an aggregate value of €56.5 million, were awarded without competitive process (2013: 116 contracts, with an aggregate value of €17.8 million). There is however evidence to suggest that, as in previous years, returns submitted for 2014 did not include all instances of non-competitive procurement that were appropriate for declaration in the return.

The following summarises the actions taken by the HSE in 2014 to improve compliance with procurement rules

- A number of framework agreements have been combined on the basis of similar requirements. There are currently 80 national framework agreements in place covering the majority of common expenditure categories and over 550 central contracts are in place covering an annual expenditure value of €426 million. To improve staff awareness of the existence of framework agreements and contracts, the HSE has developed a Procurement Assisted Sourcing System (PASS) to allow budget holders to access current contracts information.
- The HSE has commenced the implementation, on a phased basis, of a National Distribution Centre model which will consolidate stock holding across the HSE, improve contract compliance, increase stock management at the point of use and control and deliver cost efficiencies. Since the beginning of 2014, HSE Procurement has achieved cost reductions of over €50 million. Since the development of a centralised Procurement function in 2010, total savings of €250 million have been achieved.
- Work has commenced on a Data Warehouse and Business Intelligence system which will allow for information to be extracted for reporting, data analysis and comparisons across the multiple financial systems currently in use across the HSE.
- A procurement training programme has commenced and will be delivered to staff across the HSE by Q2 2015. Over 100 staff have received formal training to date under this programme.
- During 2014, the HSE sought to increase the level of communication and training to staff on the requirements of Circular 40/02 and on procurement rules generally. This has resulted in significantly increased levels of disclosure in the 40/02 return for 2014.

These systems and enhanced processes will assist budget holders and Procurement in identifying areas where greater efficiencies can be achieved and support compliance with procurement rules. A key objective of any new financial and procurement system will be the provision of user friendly front end technology to support HSE's large community of non-professional buyers to improve compliance and achieve value for money.

A detailed proposal to commence implementation of the approved staffing structure required to establish a Sourcing & Contracts unit within HBS in the context of the new Government Procurement model was approved by the Health Business Services Committee in April 2015. An initial ten posts (of a total of 17) have been prioritised for immediate filling.

Cash controls

Examinations undertaken by Internal Audit on canteen and car parking facilities have identified control risks in cash management and custody procedures, in particular relating to physical security of cash, adequacy of insurance for cash in transit, reconciliation of cash receipts to bank lodgements and segregation of duties. These control risks have been identified by Internal Audit as being potentially systemic.

Specific Internal Audit recommendations have been made in respect of each audit and the implementation of these are being progressed by management at the locations concerned. In addition, the overall approach to cash handling risk management is being considered by the National Financial Controls Assurance Group, with the objective of commencing the development of an overarching cash management strategy for the HSE during 2015. In the meantime, the HSE's National Financial Regulations have been updated to incorporate the recommendations of Internal Audit in relation to cash management procedures generally.

Tax compliance

A comprehensive self-review of tax compliance which was initiated in 2013 was completed in the year, with external specialist tax assistance. The self-review was conducted across all tax heads for which the HSE needs to account and focussed in particular on those risk areas identified by the formal tax risk assessment completed in 2012. Details of the underpayment of tax identified in the course of the self-review were set out in an unprompted voluntary disclosure submitted to Revenue (including interest and penalties) in December 2014. The disclosure was not material in financial terms in the context of the HSE's overall annual tax liability.

Steps have been taken by the HSE to address areas of non-compliance identified during the self-review exercise, to seek to maximise tax compliance, as follows

- A centralised permanent in-house tax department dealing with all tax matters for the HSE was established at the end of 2013.
- Where compliance risks have been identified, the tax team has made formal submissions to Revenue and in response has obtained written rulings from Revenue. This has formalised the position in a number of risk areas and has eliminated any ambiguity in the interpretation of Revenue guidance which could have otherwise exposed the HSE to a tax liability in future periods.
- Scheduled monthly meetings with Revenue as part of the co-operative compliance programme: the HSE met at least monthly during 2014 with Revenue officials to appraise them of progress with the preparation of the unprompted voluntary disclosure. The monthly meetings have promoted a constructive working relationship with Revenue and have also enabled the sharing of information on developments in tax generally.
- A formal tax policy has been developed for the HSE, which encompasses all tax policies, procedures and guidance notes. Financial regulations (NFRs) have been reviewed and, where appropriate, amended and updated for current tax law and practice and for written Revenue rulings and other issues identified as part of the self-review exercise. Guidance notes and explanatory memos on a broad range of common issues arising in the HSE across the tax heads have been prepared by the tax team and are available to all staff on the HSE intranet site. Training has been delivered by the tax team to financial processing staff in 2014.
- A rolling programme of tax health checks was designed by the HSE Tax team and will be rolled out during 2015. All processing sites will be required to perform detailed reviews on a rolling basis to provide continuous assurance of tax compliance. The use of e-audit techniques will also be investigated to seek to streamline the process.

The HSE remains committed to exemplary compliance with taxation laws.

Review of the effectiveness of the system of internal control

The annual review of the effectiveness of the system of internal control of the HSE is directed at enabling the Director General, as Accounting Officer, and the Directorate HSE to deliver upon their requirement to satisfy themselves and represent to the Minister for Health and to the Oireachtas that there is appropriate effective control within the HSE. During 2014 a formal Review of the System of Internal Control in the HSE was completed by the Finance Directorate, the results of which have informed this Statement on Internal Financial Control. The review was carried out by finance managers with specific expertise in the areas of finance, audit, control and risk. Annual reviews of the system of internal control use an established controls assurance process methodology which has been further developed in carrying out this review during 2014.

The review process was significantly revised and broadened for 2014 and the HSE engaged external specialist support to review, validate and quality assure the revised review process to ensure that it meets best practice standards.

The review is informed by the following various elements, all of which provide evidence of the effectiveness, or otherwise, of the system of internal control in the HSE:

Internal Control Questionnaire (ICQ)

The ICQ was required to be completed by all staff at Grade VIII (or equivalent) and above, who also sign the annual Controls Assurance Statement. The content and format of the ICQ was extensively redeveloped in 2014, and expanded to 169 questions across 13 key control areas. For the first time, in 2014, the ICQ was hosted online and completed by respondents in electronic format. The migration of the ICQ to electronic format has facilitated the detailed statistical analysis of responses received from over 1,100 senior managers. This analysis will assist with staff training needs assessment and risk management focus in 2015.

Controls Assurance Statement (CAS)

The CAS must also be completed by all by all senior managers, administrative and clinical, from National Director Level to Grade VIII (or equivalent relevant) level, and returned, along with an up-to-date risk register, to line management. There are a number of enhancements to this year's CAS, including a more detailed section on Circular 40/02 and space for staff to include any other information that they believe is relevant. The risk register documents material risks that could affect the HSE, the methods of managing those risks, the controls that are in place to contain them and the procedures to monitor them. These returns, which were previously paper-based, have also been submitted electronically for 2014, which has facilitated real-time monitoring of completion rates.

The 2014 review also involved reference to

- status of the recommendations of previous years' reports on the review of the effectiveness of the system of internal control
- Internal Audit reports, 2014 audit programme
- Audit Committee and Risk Committee minutes/reports
- reports and management letters of the Comptroller and Auditor General
- the 2014 audit programme of the Comptroller and Auditor General and in particular, the audit risks identified therein
- assessment of the progress of the implementation of recommendations contained in previous Internal Audit reports and reports of the Comptroller and Auditor General
- internal news/media releases
- HSE Directorate and Leadership team minutes
- Steering Group/Working Group/Implementation Groups etc minutes
- external reviews/reports
- reports of the Committee of Public Accounts
- Health Information and Quality Authority Reports
- Quality Patient Safety Audit Reports; and
- government policy, such as Future Health - A Strategic Framework for Reform of the Health Service 2012–2015 and the Programme for Government.

Compliance by staff with the extended controls assurance process in 2014 has significantly improved versus 2013. The individual National Director Registers identify the staff who have and have not completed a CAS and ICQ, and non-responders will be followed up. The absence of a signed CAS attesting to the operation of controls gives rise to a concern that corporate risks may not be appropriately identified and addressed.

Conclusion

The report of the Review of the System of Internal Control in the HSE was considered by the HSE Leadership Team in February 2015 and subsequently circulated to the Directorate and Audit Committee.

In summary, the review concluded that there is evidence that

- The HSE has adopted a suite of internal policies and procedures, which form the basis of the internal financial control framework.
- Where high level risks have been identified, mitigating/compensating controls are generally in place.
- A range of instances of non-compliance with these adopted policies and procedures have been identified which exposes the organisation to material risk when not promptly addressed.
- It is clear from the responses received to the online ICQ that most managers indicate high levels of compliance with internal controls in the daily undertaking of their role. However the lack of uniform consistency of responses indicates varying levels of compliance in specific control areas and these will be subject to particular focus for improvement which will be monitored by the National Financial Controls Assurance Group during 2015.
- Reasonable assurance can be placed on the sufficiency of internal controls to mitigate and/or manage key inherent risks to which financial activities are exposed. However the operation of a number of controls remains inconsistent and represents a significant focus area for improvement over the coming year.

As in previous years, the evaluation of the effectiveness of the system of internal control has had regard to the continuous development of the control systems of the HSE as an organisation undergoing significant change, comprising an amalgamation of health bodies and their legacy systems. The extension in scope and depth of the annual controls assurance process in 2014 has had the effect of further increasing awareness and understanding of the control system throughout the organisation. A concerted approach is being adopted to following up the review's recommendations in a consistent way. All recommendations will be grouped into thematic areas so that action plans for implementation will seek to address all recommendations relating to the theme.

The breaches of the control environment of the HSE which are referenced in this statement underline the imperative of specific and sustained focus on compliance at all levels of the organisation. In summary, notwithstanding control breaches which were identified and are being addressed by management as set out above, satisfactory levels of compliance with the control framework are generally observed by the majority of staff. However, persistent instances of non-compliance remain in certain areas such as compliance with procurement rules. Disregard of procurement requirements, and by extension NFRs, are matters for consideration under the HSE's disciplinary procedures. As with recommendations contained in any other report, such as Internal Audit and C&AG reports, structured plans for the implementation of the recommendations of the Review of the Effectiveness of the System of Internal Control in the Health Service Executive are prepared by management. The implementation of these recommendations by management will be co-ordinated by National Financial Controls Assurance Group and progress will be monitored during 2015 by the National Performance Oversight Group and the Audit Committee. The situation will be reassessed in the 2015 Review of the Effectiveness of the System of Internal Control.

Tony O'Brien
Accounting Officer
Health Service Executive

18 September 2015

Comptroller and Auditor General
Report for presentation to the Houses of the Oireachtas

Vote 39 Health Service Executive

I have audited the appropriation account for Vote 39 Health Service Executive for the year ended 31 December 2014 under section 3 of the Comptroller and Auditor General (Amendment) Act 1993. The account has been prepared in the form prescribed by the Minister for Public Expenditure and Reform, and in accordance with standard accounting policies and principles for appropriation accounts.

Responsibility of the Accounting Officer

In accordance with Section 22 of the Exchequer and Audit Departments Act 1866, the Accounting Officer is required to prepare the appropriation account. By law, the account must be submitted to me by 31 March following the end of the year of account.

The Accounting Officer is also responsible for the safeguarding of public funds and property under his control, for the efficiency and economy of administration by his Department and for the regularity and propriety of all transactions in the appropriation account.

Responsibility of the Comptroller and Auditor General

I am required under Section 3 of the Comptroller and Auditor General (Amendment) Act 1993 to audit the appropriation accounts of all Votes and to perform such tests as I consider appropriate for the purpose of the audit.

Upon completion of the audit of an appropriation account, I am obliged to provide a certificate stating whether, in my opinion, the account properly presents the receipts and expenditure related to the Vote. I am also required to refer to any material case in which

- a department or office has failed to apply expenditure recorded in the account for the purposes for which the appropriations made by the Oireachtas were intended, or
- transactions recorded in the account do not conform with the authority under which they purport to have been carried out.

Under Section 3 (10) of the Comptroller and Auditor General (Amendment) Act 1993, I am required to prepare each year, a report on any matters that arise from the audits of the appropriation accounts or examinations of accounting controls.

Scope of audit

An audit includes examination, on a test basis, of evidence relevant to the amounts and regularity of financial transactions included in the account and an assessment of whether the accounting provisions of the Department of Public Expenditure and Reform's *Public Financial Procedures* have been complied with.

The audit involves obtaining sufficient evidence to give reasonable assurance that the appropriation account is free from material misstatement, whether caused by fraud or other irregularity or error. I also seek to obtain evidence about the regularity of financial transactions in the course of the audit. In forming the audit opinion, the overall adequacy of the presentation of the information in the appropriation account is evaluated.

Opinion on the appropriation account

In my opinion, the appropriation account properly presents the receipts and expenditure of Vote 39 Health Service Executive for the year ended 31 December 2014.

I have obtained all the information and explanations I considered necessary for the purposes of my audit. In my opinion, proper books of account have been kept by the Health Service Executive. The appropriation account is in agreement with the books of account.

Significant breaches of the control system

The statement on internal financial control discloses significant breaches of the control system in 2014 relating to compliance with procurement rules and tax compliance. Note 6.7 of the appropriation account also discloses that following an internal review of tax compliance, the HSE made an unprompted qualifying disclosure to the Revenue Commissioners in respect of unpaid tax for the periods 2011, 2012 and 2013 and paid tax including interest and penalties totaling €21.6 million in 2014 and €0.8 million in 2015.

Reporting on matters arising from audit

Chapters 19 to 21 of my report on the accounts of the public services for 2014 refer to certain other matters relating to Vote 39.

Seamus McCarthy
Comptroller and Auditor General

24 September 2015

Statement of Accounting Policies and Principles

The standard accounting policies and principles for the production of appropriation accounts as determined by the Department of Public Expenditure and Reform (DPER) have been applied in the preparation of the account except for the following:

Preparation of the appropriation account from the annual financial statements (AFS)

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 may direct and Section 36 (3) requires that these accounts be prepared in accordance with accounting standards specified by the Minister. The AFS are prepared on an income and expenditure basis. All income relating to the period is recognised, whether actually received or not and all expenditure relating to the period, both actual and accrued, is charged. The balance of the account shows the excess of income over expenditure or vice versa.

The Appropriation Account is prepared on a receipts and payments basis and recognises cash received and paid during the period of account. It is a non-cumulative account and any amount underspent at year-end is surrendered to the Exchequer.

The charge to the HSE Vote comprises expenditure recorded on an area basis and expenditure relating to nationally administered programmes. The area-based expenditure is produced for areas that pre-dated the HSE and derived from legacy systems operated in those areas. The Executive's financial systems are designed to produce accrual-based accounts and the cash based figures required for Vote accounting relies on substantial reconciliations to the accrual figures. These are derived from the AFS by eliminating non cash items and analysing all asset and liability accounts to identify all suspense account balances. The key to the process is that both sets of accounts are ultimately prepared from the same source transactions. The summary reconciliation of the vote outturn to the AFS is included in Note 1.2 of the appropriation account.

Ultimately, while this process produces an overall outturn that equates to the Vote outlay of the Executive in the year, the charge to some individual subheads includes apportionments.

Expenditure on long term residential care

The Nursing Homes Support Scheme (NHSS) provides eligible people with financial support towards the cost of their long term residential care and involves a co-payment arrangement between the person and the State. The scheme applies to people accessing long term residential care and replaces the subvention scheme which had been in existence since 1993. Subhead C.2 is designed to account for all expenditure on long term residential care which comprises the following four elements

- subventions paid in respect of residents in private nursing homes, who were resident prior to the introduction of the NHSS and who have opted not to transfer to the NHSS scheme
- contract bed payments paid in respect of residents in private nursing homes, who were resident prior to the introduction of the NHSS and who have opted not to transfer to the NHSS scheme
- payments to private nursing homes in respect of residents who are in the NHSS
- a proportion of the gross expenditure of public residential care units.

The first three elements are charged directly to the subhead. The fourth element is based on a cost allocation model developed by the HSE which, in summary, apportions the costs of its long-stay units on the basis of beds allocated to the NHSS.

Other apportionments

In addition to Subhead C.2, certain expenditure currently administered centrally (e.g. HSE corporate expenditure, statutory pension costs excluding lump sums and national contracts) is apportioned to area-based subheads on an estimated basis in line with how the Revised Estimates Volume allocation was calculated.

Statement of capital assets

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 were included in the opening balance sheet on establishment day, 1 January 2005, at their original cost/valuation. Where lands had been revalued prior to transfer to the HSE, Department of Health valuation rates were used. The related aggregate depreciation account balance was also included in the opening balance sheet. The HSE has adopted a policy of not revaluing fixed assets.

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.

Statement of capital assets under development

A separate statement has not been completed as capital assets under development are included as work in progress in the Statement of Capital Assets.

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.

Matured liabilities

Matured liabilities are individual invoices in excess of €20,000 paid in January 2015 which fell due for payment before 31 December 2014.

Vote 39 Health Service Executive

Appropriation Account 2014

Service			2014 Estimate provision	2014 Outturn	2013 Outturn
		€000	€000	€000	€000
HSE Administration					
A.1	Salaries, wages and allowances and other administration expenses of Corporate HSE		61,557	63,955	62,517
A.2	Value for money and policy reviews		386	377	389
A.3	Pension lump sum payments				
	Original	72,000			
	Supplementary	20,000	92,000	91,176	61,185
HSE Regions and Other Health Agencies					
B.1	HSE-Dublin Mid Leinster Region				
	Original	1,355,461			
	Supplementary	71,000	1,426,461	1,432,438	1,372,529
B.2	HSE-Dublin North East Region				
	Original	1,234,692			
	Supplementary	66,000	1,300,692	1,306,142	1,252,550
B.3	HSE-South Region				
	Original	1,928,812			
	Supplementary	61,000	1,989,812	1,998,150	1,944,463
B.4	HSE-West Region				
	Original	2,141,394			
	Supplementary	65,000	2,206,394	2,215,638	2,160,646
B.5	Grants in respect of certain other health bodies including voluntary and joint board hospitals				
	Original	2,206,786			
	Supplementary	127,000	2,333,786	2,305,337	2,256,030

Service		Estimate provision		2014 Outturn	2013 Outturn
		€000	€000	€000	€000
Other services					
B.6	Health agencies and other similar organisations (part funded by National Lottery)		7,513	4,289	3,599
B.7	Hospital, in-patient, out-patient and counselling services for persons who have contracted Hepatitis C from the use of immunoglobulin anti-D and the provision of services under the Health (Amendment) Act 1996[a]		14,244	14,210	14,921
B.8	Payment to a special account established under Section 13 of the Health (Repayment Scheme) Act 2006		8,000	1,000	—
B.9	Payment to a special account established under Section 4 of the Hepatitis C Compensation Tribunal (Amendment) Act 2006 – Insurance Scheme		1,500	1,650	900
B.10	Service developments and innovative service delivery projects		41,570	21,635	27,702
B.11	Payments to the State Claims Agency				
	Original	96,000			
	Supplementary	55,000	151,000	129,403	123,741
Care Programme					
C.1	Primary care reimbursement services and community demand led schemes				
	Original	2,374,972			
	Supplementary	165,000	2,539,972	2,540,112	2,637,071
C.2	Long term residential care		938,763	954,093	966,324
C.3	Children and Family Services		—	—	566,794

[a] Excludes expenditure of €5.87 million in respect of voluntary hospitals as this expenditure is included under Subheads B1 to B4.

Service				2014	2013
		Estimate provision		Outturn	Outturn
		€000	€000	€000	€000
Capital Services					
D.1	Building, equipping and furnishing of health facilities and of higher education facilities in respect of the pre-registration nursing degree programme, including payments in respect of property rental, lease costs, etc.		323,620	320,888	289,302
D.2	Building, equipping and furnishing of health facilities (part funded by National Lottery)		2,539	2,539	2,539
D.3	Information systems and related services for health agencies		140,000	134,432	126,041
D.4	Building and equipping mental health and other health facilities (funded from the disposal of surplus assets)		8,000	5,453	3,587
	Gross expenditure				
	Original	12,957,809			
	Supplementary	630,000			
			13,587,809	**13,542,917**	**13,872,830**
	Deduct				
E	**Appropriations in aid**				
	Original	1,405,313			
	Supplementary	(50,000)			
			1,355,313	**1,337,185**	**1,372,433**
	Net expenditure				
	Original	11,552,496			
	Supplementary	680,000			
			12,232,496	**12,205,732**	**12,500,397**

Surplus for surrender

The surplus of the amount provided over the net amount applied is liable for surrender to the Exchequer.

	2014	2013
	€	€
Surplus to be surrendered	26,764,003	31,074,196

Notes to the Appropriation Account

1 Operating Cost Statement 2014

		2014	2013
	€000	€000	€000
Expenditure on HSE corporate administration		61,943	62,906
Expenditure on services and programmes		13,480,974	13,809,924
Gross expenditure		**13,542,917**	**13,872,830**
Deduct			
Appropriations-in-aid		**1,337,185**	**1,372,433**
Net expenditure		**12,205,732**	**12,500,397**
Changes in capital assets			
Purchases cash	(219,709)		
Depreciation	177,858		
Capital assets transferred to Tusla	76,151		
Asset transfers/disposals	6,071		
Disposals cash	3,623		
Loss on disposals	4,572	48,566	9,528
Changes in net current assets			
(Decrease) in closing accruals	(42,988)		
Net assets and liabilities transferred to Tusla	(39,119)		
(Increase) in stock	(14,281)	(96,388)	13,667
Net programme cost		**12,157,910**	**12,523,592**

1.1 Net Revenue and Capital Vote Outturn

Category	2014 REV estimate	Supplementary estimate	Final 2014 estimate	2014 Outturn	Surplus/ (Deficit)
	€000	€000	€000	€000	€000
Gross revenue	12,583,650	630,000	13,213,650	13,174,212	39,438
Gross capital	374,159	—	374,159	368,705	5,454
Total gross vote	**12,957,809**	**630,000**	**13,587,809**	**13,542,917**	**44,892**
Appropriations-in-aid					
Revenue receipts	(1,397,313)	50,000	(1,347,313)	(1,330,998)	(16,315)
Capital receipts	(8,000)	—	(8,000)	(6,187)	(1,813)
Total appropriations-in-aid	**(1,405,313)**	**50,000**	**(1,355,313)**	**(1,337,185)**	**(18,128)**
Net vote	**11,552,496**	**680,000**	**12,232,496**	**12,205,732**	**26,764**
Net revenue	11,186,337	680,000	11,866,337	11,843,214	23,123
Net capital	366,159	—	366,159	362,518	3,641
Net vote	**11,552,496**	**680,000**	**12,232,496**	**12,205,732**	**26,764**

1.2 Reconciliation of operating cost to expenditure recognised in the Annual Financial Statements (AFS)

	2014	2013[a]
	€000	€000
Net programme cost	12,157,910	12,523,592
Expenditure met from other income	1,391,714	1,470,594
Purchases cash	219,709	181,073
Depreciation	(177,858)	(179,429)
Land transfers/disposals	(6,071)	(3,995)
Disposals cash	(3,623)	(2,465)
(Loss) on disposals	(4,572)	(4,712)
Expenditure per AFS income and expenditure accounts	**13,577,209**	**13,984,658**
Revenue expenditure per revenue income and expenditure account	13,220,321	13,642,431
Capital expenditure per capital income and expenditure account	356,888	342,227
Expenditure per AFS income and expenditure accounts	**13,577,209**	**13,984,658**

Analysed as follows

	2014	2013[a]
Revenue pay and pensions	€000	€000
Clinical	2,699,898	2,789,900
Non-clinical	863,119	901,068
Other client/patient services	632,557	614,208
Superannuation	599,853	566,203
Sub-total pay and pensions	**4,795,427**	**4,871,379**
Revenue non-pay		
Clinical	880,780	856,264
Patient transport and ambulance services	56,892	56,682
Primary care and medical card schemes	2,667,502	2,901,490
Other client/patient services	15,994	64,866
Grants to outside agencies	3,425,454	3,477,148
Housekeeping	229,193	232,970
Office and administrative expenses	403,096	408,579
Long stay charges repaid to patients	1,124	196
Hepatitis C insurance scheme	882	1,198
Payments to State Claims Agency	117,356	135,874
Nursing home support scheme (Fair Deal) – private nursing home only	585,511	591,386
Other operating expenses	41,110	44,399
Sub-total non pay	**8,424,894**	**8,771,052**
Capital expenditure		
Capital grants to outside agencies	53,292	68,875
Capital expenditure on HSE capital projects	303,596	273,352
Sub-total capital	**356,888**	**342,227**
Total expenditure per AFS income and expenditure accounts	**13,577,209**	**13,984,658**

[a] 2013 pay, pensions and non pay costs include Children and Family Services

2 Balance Sheet as at 31 December 2014

	Note	2014 €000	2013 €000
Capital assets	2.2	4,861,672	4,910,238
Financial assets		3	3
		4,861,675	**4,910,241**
Current assets			
Bank, cash and PMG	2.3	151,159	143,989
Stocks	2.4	137,133	122,852
Debtors and prepayments	2.5	333,924	217,526
Other debit balances	2.6	5,397	45,268
Total current assets		**627,613**	**529,635**
Less current liabilities			
Creditors		153,866	148,053
Accrued expenses		1,381,496	1,329,183
Deferred income		25,724	10,440
Other credit balances	2.7	150,792	172,032
Net liability to the Exchequer	2.8	5,764	17,225
Total current liabilities		**1,717,642**	**1,676,933**
Net current assets		**(1,090,029)**	**(1,147,298)**
Net assets		**3,771,646**	**3,762,943**
Represented by:			
State funding account	2.1	**3,771,646**	**3,762,943**

2.1 State Funding Account	**Note**		**2014**	**2013**
		€000	**€000**	**€000**
Balance at 1 January			3,762,943	3,784,880
Disbursements from the Vote				
Estimate provision	Account	12,232,496		
Surplus to be surrendered	Account	(26,764)		
Net vote			12,205,732	12,500,397
Non cash expenditure – reserves[a]			(39,119)	1,258
Net programme cost			(12,157,910)	(12,523,592)
Balance at 31 December			**3,771,646**	**3,762,943**

[a] 2014 reserves movement relates to net assets and liabilities transferred to Child and Family Agency in 2014.

2.2 Capital Assets

	Land	Buildings[a]	Work in progress	Equipment	Motor vehicles	Total
	€000	€000	€000	€000	€000	€000
Gross assets						
Cost/valuation at 1 January 2014	1,721,684	3,779,324	118,455	1,261,651	92,075	6,973,189
Additions	2,003	13,602	149,936	48,609	5,559	219,709
Transfers (from work in progress)	—	18,570	(35,366)	16,272	524	—
Disposals (CFA)[b]	(16,276)	(78,996)	—	—	(1,746)	(97,018)
Disposals (Non-CFA)	(9,687)	(2,402)	(1,619)	(14,933)	(9,146)	(37,787)
Cost/valuation at 31 December 2014	1,697,724	3,730,098	231,406	1,311,599	87,266	7,058,093
Accumulated depreciation						
Opening balance at 1 January 2014	—	952,119	—	1,031,397	79,435	2,062,951
Charge for the year	—	92,445	—	79,455	5,958	177,858
Depreciation on disposals (CFA)[b]	—	(19,372)	—	—	(1,495)	(20,867)
Depreciation on disposals (Non CFA)	—	(729)	—	(13,731)	(9,061)	(23,521)
Cumulative depreciation at 31 December 2014	—	1,024,463	—	1,097,121	74,837	2,196,421
Net assets at 31 December 2014	**1,697,724**	**2,705,635**	**231,406**	**214,478**	**12,429**	**4,861,672**
Net assets at 31 December 2013	**1,721,684**	**2,827,205**	**118,455**	**230,254**	**12,640**	**4,910,238**

[a] The net book value of fixed assets above includes €29.8 million (2013: €31.6 million) in respect of buildings held under finance leases; the depreciation charged for the year above includes €1.8 million (2013: €1.8 million) on those buildings.

[b] Land and buildings were transferred to the Child and Family Agency on 1 January 2014 in accordance with the asset schedule contained within the Deed of Agreement entered into between the Minister for Health and the Minister for Children and Youth Affairs, dated 23 December 2013. Motor Vehicles transferred were subject to a formal identification process and transferred to the Child and Family Agency on 1 January 2014 upon agreement between the HSE and the Child and Family Agency.

2.3 Bank, Cash and PMG	**2014**	**2013**
at 31 December	**€000**	**€000**
Officers imprest/petty cash balances	594	673
Commercial bank account balances	52,785	48,370
PMG balance	97,780	94,946
	151,159	143,989

2.4 Stocks	**2014**	**2013**
at 31 December	**€000**	**€000**
Medical, dental and surgical supplies	31,745	31,719
Laboratory supplies	6,166	6,449
Pharmacy supplies	18,751	18,179
High tech pharmacy stocks	44,814	33,780
Pharmacy dispensing stocks	968	1,066
Blood and blood products	1,120	1,250
Vaccine stocks	23,319	19,638
Household services	7,684	8,074
Stationery and office supplies	2,021	2,016
Sundries	545	681
	137,133	122,852

The HSE, in accordance with the Department of Public Expenditure and Reform letter of sanction, wrote off stock amounting to €0.54 million in 2014.

2.5 Debtors and Prepayments	**2014**	**2013**
at 31 December	**€000**	**€000**
Patient debtors – private facilities in public hospitals[a]	158,068	110,783
Patient debtors – public inpatient charges	5,587	13,840
Patient debtors – long stay charges	8,998	8,200
Prepayments and accrued income	19,784	18,598
Pharmaceutical manufacturers	18,428	15,294
Pension levy deductions from staff/service providers	9,981	10,549
Statutory redundancy claim	3,720	6,021
Voluntary hospitals re: national medical device service contracts	16,313	11,145
Sundry debtors	31,233	23,096
Jan 15 payroll advance.	25,057	—
Payroll technical adjustment[b]	27,228	—
Local authorities[b]	1,007	—
Payroll overpayments and secondments[b]	5,190	—
Other debtors[b]	3,330	—
	333,924	217,526

[a] Patient debtors – private facilities in public hospitals has increased significantly year on year and patient debtors – public inpatient charges has fallen. A revised charging structure was introduced for in-patient services provided under Section 55 of the Health Act 1970 (as amended by Health (Amendment) Act 2013). These include charging for private patients accommodated in a non-designated bed, which could not be billed for previously, and a reduction in statutory charges for private patients for the public inpatient charge.

[b] In prior years, certain debtor balances were accounted for as vote debit balances and disclosed in Note 2.6. These balances represented cash advances from the HSE Vote, recoupable from that Vote. Arising from the disestablishment of the Vote from 1 January 2015, these balances are now accounted for as debtors. They will remain as debtors on the HSE's financial statements and any monies due will be collected in future years.

Debt Write-Offs and Provisions

During 2014, the HSE, in accordance with the Department of Public Expenditure and Reform letter of sanction, wrote off bad debts amounting to €13.5 million and increased the provision for bad debts by €2.1 million as follows:

	Debts written off		Movement in provision	
	2014	**2013**	**2014**	**2013**
	€m	**€m**	**€m**	**€m**
Private charges	4.6	4.9	5.6	4.7
In-patient charges	2.6	2.9	1.3	0.6
Emergency department charges	2.3	3.6	(0.2)	(1.4)
Road traffic accidents	2.5	2.0	(3.8)	(1.5)
Long-stay	2.3	0.2	(0.2)	1.8
Non-patient related debts	(0.8)	0.9	(0.6)	(0.5)
Total	**13.5**	**14.5**	**2.1**	**3.7**

2.6 Other Debit Balances	**2014**	**2013**
at 31 December	**€000**	**€000**
Payroll advances and overpayments[a]	—	4,275
Secondments	—	3,011
Payroll technical adjustment[a]	—	30,350
National Treatment Purchase Fund/Special Delivery Unit	—	94
Local authorities	—	2,292
Other debit balances	5,397	5,246
	5,397	45,268

[a] In prior years, certain debtor balances were accounted for as vote debit balances and disclosed in note 2.6. These balances represented cash advances from the HSE Vote, recoupable from that Vote. Arising from the disestablishment of the Vote from 1 January 2015, these balances are now accounted for as debtors. They will remain as debtors on the HSE's financial statements and any moneys due will be collected in future years.

2.7 Other Credit Balances	**2014**	**2013**
at 31 December	**€000**	**€000**
Amounts due to the State		
Income Tax	59,583	56,994
Pay Related Social Insurance	36,973	37,173
Professional Services Withholding Tax	19,638	18,924
Value Added Tax	9,460	9,035
Single Public Service Pension Scheme	771	—
Local Property Tax	339	—
Due to the State	126,764	122,126
Payroll deductions and other credit balances[a]	18,028	17,513
Deferred income/special I&E balances[a]	6,000	32,393
	150,792	172,032

[a] Arising from the disestablishment of the Vote from 1 January 2015, certain credit balances totalling €41.2 million were surrendered during 2014. These balances will continue to be reflected in the financial statements of the HSE.

2.8 Net Liability to the Exchequer	**2014**	**2013**
at 31 December	**€000**	**€000**
Surplus to be surrendered	26,764	31,074
Exchequer grant undrawn	(21,000)	(13,849)
Net liability to the Exchequer	5,764	17,225
Represented by:		
Debtors		
Bank, cash and PMG	151,159	143,989
Other debit balances	5,397	45,268
	156,556	189,257
Creditors		
Due to State	(126,764)	(122,126)
Payroll deductions and other credit balances	(18,028)	(17,513)
Deferred income/special I&E balances	(6,000)	(32,393)
	(150,792)	(172,032)
	5,764	17,225

2.9 Commitments	**2014**	**2013**
at 31 December	**€000**	**€000**
Global Commitments		
Commitments likely to arise in subsequent years for:		
Procurement and grant subheads	267,043	268,090
Operating leases	42,634	41,039
Finance leases	34,952	36,035

Capital Commitments[a,b]	**Cumulative spend to 31 December 2013**	**Expenditure in 2014**	**Commitments 2015-2018**	**Total**
Hospital Services	**€m**	**€m**	**€m**	**€m**
Development of National Paediatric Hospital.	37.55	7.26	322.20	367.01
Relocation of National Maternity Hospital Holles Street.	—	0.72	87.18	87.90
Provision of Phase 2 radiation oncology facilities in Cork University Hospital	—	0.43	63.10	63.53
Provision of Phase 2 radiation oncology facilities at University College Hospital Galway	—	0.37	52.08	52.45
St James Hospital - Centre of Excellence for Ageing.	1.01	11.12	20.58	32.71
Althnagelvin Hospital - Part funding of additional radiation oncology facilities.	—	3.00	16.00	19.00
University College Hospital Galway - New Clinical Block.	0.22	0.57	16.82	17.61
Our Lady of Lourdes Hospital–Phase 2.	0.38	0.67	14.88	15.93
University Hospital Limerick - Fit-out of the Emergency Department.	0.60	0.20	14.06	14.86
Mercy University Hospital - Development of a Regional Gastroenterology Centre.	0.10	0.12	10.84	11.06
Naas General Hospital - Day procedures unit, Oncology & Physical Therapy Unit, Provision of a replacement Endoscopy Suite.	—	0.99	7.70	8.69
Sub-total hospital services	**39.86**	**25.45**	**625.44**	**690.75**

Capital Commitments[a,b]	Cumulative spend to 31 December 2013	Expenditure in 2014	Commitments 2015-2018	Total
Community Services	**€m**	**€m**	**€m**	**€m**
Central Mental Hospital – Phase 1 National Forensic Central Hospital.	1.42	1.75	109.55	112.72
National Rehabilitation Hospital – Phase 1 redevelopment/replacement of existing facility.	10.62	1.04	23.06	34.72
Tullamore Hospital - Refurbishment of original hospital buildings.	1.00	4.52	7.59	13.11
Primary Care Centre to be provided on the site of St Mary's Orthopaedic Hospital	—	0.07	16.82	16.89
University College Hospital Galway - Provision of a replacement acute mental health unit.	0.28	0.82	14.74	15.84
Killarney mental health residential unit.	0.46	3.27	9.46	13.19
Primary Care Centre to be developed on site in Grangegorman.	1.01	1.06	9.08	11.15
Portlaoise - Mental health residential unit	—	0.09	12.23	12.32
Castlebar -Refurbishment and extension to long stay wards and a rehabilitation ward.	0.10	0.13	10.76	10.99
Primary Care Centre – Finglas.	0.38	0.17	9.84	10.39
Primary Care Centre - Rowlagh/ North Clondalkin.	1.00	—	7.00	8.00
Primary Care Centre - Corduff	0.50	0.14	7.48	8.12
Sub-total community services	**16.77**	**13.06**	**237.61**	**267.44**
Total capital commitments	**56.63**	**38.51**	**863.05**	**958.19**

[a] The HSE has a multi-annual capital investment plan which prioritises expenditure on capital projects in line with goals in the Corporate Plan and the Annual National Service Plan. The commitments identified above are in respect of the total cost of projects for 2015 to 2018 for which specific funding budgets have been approved at year end. These commitments may involve costs in years after 2014 for which budgets have yet to be approved.

[b] Capital commitments above relate to the period 2015 to 2018. Some projects have commitments beyond 2018.

2.10 Matured Liabilities

Estimate of the amount of matured liabilities not discharged at 31 December 2014 was €15.4 million (2013: €14.2 million).

3 Programme Expenditure by Subhead

An explanation is provided below in the case of each expenditure subhead where the outturn varied from the amount provided by more than €100,000, and by more than 5%.

Description	Less/(more) than provided €000	Explanation
A.3 Pension Lump Sums	824	The REV provided for €72 million which was anticipated to pay for 1,241 leavers with an average lump sum amount of €58,000. A supplementary estimate of €20 million was required as the actual number of pension lump sums exceeded the funding provided. 2,797 cases were processed in 2014 at an average cost of €31,525. These included retirement benefits, gratuities and refunds of superannuation.
B.1 – B.5 HSE Regions and Grants in respect of certain other health bodies including voluntary and joint board hospitals	(560)	The outturn in 2014 for Subheads B.1 to B.5 inclusive was €391 million higher than provided for in the estimate. This was due to an incoming deficit of €80 million in relation to acute hospitals which had not been included in the estimate. In addition, the estimate had provided for reductions in costs in acute hospitals of €89 million. These reductions mainly related to agency costs which did not materialise reflecting the diminishing capacity to recruit doctors and price increases for agency provision. Expenditure in the acute sector in 2014 was €115 million higher than 2013 reflecting growth in expenditure on drugs and medicines, blood and blood products, and medical and surgical supplies and equipment. In addition the estimate included a projected €107 million of unspecified pay savings which were outside of the control of the HSE to deliver. The higher than expected costs in the acute sector were also due to increased activity including a 2% increase in emergency admissions, 3% increase in bed days used, 3% increase in day case treatments. There was also a reduction in elective admissions of 4.6%. A supplementary estimate of €390 million was provided.
B.6 Health Agencies and other similar organisations (part funded by National Lottery)	3,224	National Lottery grants are not paid until the conditions of the grant are fulfilled. Delays occur due to outstanding information requirements such as tax clearance certificate and quotations.
B.8 Payment to a Special Account established under Section 13 of the Health (Repayment Scheme) Act 2006	7,000	Following the withdrawal of a High Court appeal brought by the HSE and the Department of Health in respect of determinations made by the Appeals Officer which grants repayments to clients of certain disability services, the HSE commenced work during 2013 with the service providers to process repayments as determined by the Appeals Officer. No payments were made in 2013 as the service providers were not in a position to submit the relevant information in time for payments to be made. The HSE National Co-ordinating Unit can only make repayments on claims which have been fully validated through the various stages of the repayment process which includes receiving the required information and data from service providers, checking details and amounts provided, audit of the repayable amounts, issuing offers and checking appropriate acceptance of the offers. As some of the data received from the service providers did not meet the required standard, it was not possible to process all of the claims by the end of 2014. Consequently, only €1 million was drawn down from the 2014 allocation.

Description	Less/(more) than provided €000	Explanation
B.9 Payment to a special account established under Section 4 of the Hepatitis C Compensation Tribunal (Amendment) Act 2006 – Insurance Scheme.	(150)	The estimate provided was less than the actuarial projections of insurance policy holders claims. The outturn was less than the actuarial projection but exceeded the estimate provision. The actuarial projection for annual payments under the scheme are €7 million and €7.6 million respectively.
B.10 Service developments and innovative service delivery projects	19,935	Expenditure was €19.9 million lower than budgeted. The 2014 Programme for Government funding of €20 million allocated to Mental Health allowed the Mental Health Division to commit to the recruitment of 251 new development posts. The HSE recognises that there are difficulties with hiring people for certain posts within the mental health services and are working to identify and recruit mental health professionals. Challenges arise in relation to certain specialist posts, certain disciplines and certain geographic locations. At the end of December 2014, 1.2% of the posts had been filled with the balance at various stages in the recruitment process**.** As at the 30th June 2015, of the 251 posts that were granted as part of the 2014 allocation, 78 have been hired with 71 of those already commenced. A further 89.5 are at various stages in the recruitment process e.g. post accepted and processing clearance. The development funding has also provided for a number of new initiatives which have supported recovery oriented, innovative developments in mental health services in Ireland.
B.11 State Claims Agency	21,597	Expenditure was €33.4 million higher than the original Estimate provided. The supplementary estimate was required due to a significant risk that became apparent in early 2014, that all catastrophic injury cases which were to come before the courts in 2014 would settle on a lump sum basis and not on deferred periodic payments basis. Actual Expenditure was €21.6 million less than the post supplementary estimate, due to the timing and nature of settlements and reimbursement of claims from the State Claims Agency.

Description	Less/(more) than provided €000	Explanation
C.1 Primary care reimbursement services and community demand led schemes	(140)	Expenditure was €165 million more than provided for in the estimate. The main reasons for this were as follows €53 million was required for PCRS schemes of which €24 million related to the Long Term Illness Scheme (LTI) and €24 million related to expenditure on the High tech drugs/medicines scheme. The increase in LTI is mainly as a result of increased demand in the scheme. In 2014 4.4 million items were claimed on the scheme compared to 2.99 million items in 2013. High tech drugs/medicines continued to increase with new drug molecules coming on stream and increased number of claimants in 2014 (69,118) from 63,665 in 2013. The average monthly number of active claimants in 2014 was 36,881 (2013:- 34,732). €46 million related to local schemes e.g. Hardship medicines which represent demand driven services and costs. Expenditure in 2014 amounted to €216 million compared to the estimate allocation of €170 million. The 2014 estimate provision included a deduction of €41million under FEMPI. This pay cut resulted in reductions in expenditure in 2013 and was already reflected in the 2014 base budget (before adjustment). €11 million related to projected savings arising the introduction of an initiative whereby the retention of a full medical card on return to work would be replaced with a GP visit card. This initiative was not implemented in 2014. €10 million related to projected savings arising from the delisting of drugs from the GMS reimbursable drugs list. This initiative was not implemented in 2014.
D.4 Building and equipping mental health and other health facilities (funded from the disposal of surplus assets)	2,547	The savings arose as major projects were at an early stage in their lifecycle and the procurement of design teams and contractors took longer than anticipated due to the level of challenges being experienced by contractors. Projects progressed included St Loman's mental health residential unit, Cherry Orchard child and adolescent residential unit, additional beds Clonskeagh, extension and refurbishment at Inchicore, St Annes child and adolescent facility Galway and Ballinasloe community mental health unit.

4 Receipts

4.1 Appropriations-in-aid

			2014		2013
			Estimated	Realised	Realised
		€000	€000	€000	€000
1.	Recovery of cost of health services provided under regulations of the European Community		181,000	171,980	220,000
2.	Receipts from certain excise duties on tobacco products		167,605	167,605	167,605
3.	Recoupment of certain Ophthalmic Services Scheme costs from the Social Insurance Fund		3,000	3,003	5,042
4.	Recoupment of certain Dental Treatment Services Scheme costs from the Social Insurance Fund		3,000	5,805	9,706
5.	Statutory charges in public hospitals, long-stay charges and charges for maintenance in private and semi-private accommodation in public hospitals				
	Original	385,946			
	Supplementary	(40,000)	345,946	353,029	294,767
6.	Superannuation		172,586	169,373	181,655
7.	Miscellaneous receipts				
	Original	116,159			
	Supplementary	(10,000)	106,159	102,980	103,011
8.	Receipts from the disposal of mental health and other health facilities.		8,000	6,187	6,027
9.	PCRS rebate receipts		35,000	38,053	40,168
10.	Receipts from pension-related deduction on public service remuneration		333,017	319,170	344,452
	Total				
	Original	1,405,313			
	Supplementary	(50,000)			
			1,355,313	**1,337,185**	**1,372,433**

Explanation of significant variations

An explanation is provided below in the case of each heading where the outturn varied from the amount estimated by more than €100,000, and by more than 5%.

Description	Less/(more) than provided €000	Explanation
Recovery of cost of health services provided under regulations of the European Community	9,020	The appropriations-in-aid received by Ireland (HSE) from the United Kingdom in respect of health services provided under EU Regulations is based on an estimate of the number of persons falling within categories eligible for reimbursement and for whom each country is liable and an estimate of the average cost of providing healthcare treatment. The amount payable is agreed bilaterally following compilation of relevant data and discussions between the two administrations. The projected receipts of €181 million represented an initial estimate of what might be received in 2014 in advance of such discussions. A total of €171.98 million was received.

Description	Less/(more) than provided €000	Explanation
Recoupment of certain Dental Treatment Services Scheme costs from the Social Insurance Fund	(2,805)	The dental benefit reimbursement increased due to an increase in the number of recipients. The pay over in 2014 relates to 2013 recipients and the number of recipients increased by 10% over 2012.
Statutory charges in public hospitals, long stay charges and charges for maintenance in private and semi-private accommodation in public hospitals	(7,083)	The estimated receipts included provision for accelerated payment of €50 million from health insurers, as well as growth in income. In this event, the accelerated payment did not occur in 2014. This was offset by higher that projected growth in income (€17 million).
Miscellaneous receipts	3,179	The estimate includes a provision for once off and variable receipts which did not materialise resulting in a reduction of €10 million in the supplementary estimate.
Receipts from the disposal of mental health and other health facilities.	1,813	Sales of surplus assets were lower than the estimate provision due to property market conditions. Only land and buildings which were surplus to requirements and achieved market value were sold.
PCRS rebate receipts	(3,053)	The surplus is primarily due to the timely collection of monies due from current invoices and also the collection of overdue monies following the resolution of account queries. In addition, there were a number of new special rebate charges for specific drugs in 2014 which also increased the rebate collected.

4.2 Extra Receipts Payable to the Exchequer

	2014	2013
	€000	€000
Balance at 1 January	5,281	—
Receipts from Statutory Redundancy Fund	2,303	5,281
Balance due from Social Insurance Fund	3,720	—
Transferred to the Exchequer	(7,584)	—
Balance at 31 December	3,720	5,281

4.3 Reconciliation of Income per the Annual Financial Statements to Appropriations-in-aid

			2014	2013
	Revenue	Capital	Total	Total
	€000	€000	€000	€000
Total per annual financial statements	13,228,741	368,705	13,597,446	13,970,991
Less Exchequer grants	11,843,214	362,518	12,205,732	12,500,397
Total other income per annual financial statements	**1,385,527**	**6,187**	**1,391,714**	**1,470,594**
Less income credited to suspense				
Department of Health[a]			—	(21,770)
Department of Children and Youth Affairs			—	(1,074)
Department of Social Protection			(877)	(1,022)
Agency services			(7,279)	(7,282)
NTPF receipts/non cash receipts			—	(943)
Capital receipts from other State sources			—	(974)
Less movements in working capital				
Difference between patient cash receipts and patient income			(56,893)	(76,357)
Movement in other non-Vote debtors and other cash receipts.			10,520	11,261
Appropriations-in-aid			**1,337,185**	**1,372,433**

[a] Funding for Drugs Program Unit, previously received from the DoH, was included in HSE Vote from 1 January 2014.

5 Employee Numbers and Pay

Whole Time Equivalents at 31 December	**2014**	**2013**[a]
HSE employees	61,974	64,923
Voluntary sector employees	35,817	35,036
Other directly employed/non-employment control framework personnel	5,239	4,123
Total employees	**103,030**	**104,082**

[a] 2013 HSE whole time equivalents include Children & Family Services (3,465).

Summary analysis of pay and pension costs	**2014**	**2013**[a]
	€000	**€000**
Basic pay	3,086,540	3,226,840
Allowances	101,638	115,546
Overtime	128,043	134,519
Night duty	69,614	67,547
Weekends	156,741	166,819
On-call	50,608	48,248
Arrears	17,010	17,229
Employer PRSI	307,874	315,486
Superannuation	599,853	566,203
HSE pay	**4,517,921**	**4,658,437**
Agency pay	277,506	212,942
Total pay	**4,795,427**	**4,871,379**

[a] 2013 pay and pensions costs include Children & Family Services.

5.1 Allowances and Overtime Payments[a]

	Number of recipients[b]	Recipients of €10,000 or more	Maximum individual payment[c] 2014 €	Maximum individual payment 2013 €
Allowances	31,900	967	110,669	150,765
Overtime	20,653	3,772	144,696	154,549
Night duty	29,679	137	16,510	18,403
Weekends	46,784	524	18,993	16,638
On-call	6,599	1,628	334,215[e]	117,299
Other[d]	12,743	140	246,774[f]	67,186

[a] Payments relate to HSE employees only.

[b] Certain individuals received extra remuneration in more than one category.

[c] The maximum individual allowance and overtime payments may include amounts paid in 2014 in respect of previous years.

[d] Other includes sessional payments accounted for as payroll costs and pay arrears.

[e] The maximum on call payment of €334,215 arose due to critical staffing requirements due to emergency/sick leave. When this payment is excluded the maximum payment is €69,513.

[f] The maximum other payment of €246,774 arose due to critical staffing requirements due to emergency/sick leave. When this payment is excluded the maximum payment is €92,089.

5.2 Performance and Merit Payments

There was no payment of performance related pay in 2014 (2013: €14,265).

Gratuities paid in 2014 amount to €3.33 million (2013: €3.68 million) and included death gratuities, short service gratuities and gratuities paid to non pensionable persons.

5.3 Other Remuneration Arrangements

Payments to retired staff for services in 2014 amounted to €6.4 million (€8.5 million in 2013) and relates to salary and interviewer payments to retired HSE staff (excludes payments to agency staff).

Payments of €1.68 million were made in 2014 arising from Labour Relations Commission/Rights Commissioners awards (2013: €1.9 million).

The cost of severance awards paid in 2014 totalled €31,500 (2013: €91,618).

6 Miscellaneous

6.1 National Lottery Funding

A total of €4.289 million was paid by HSE areas as summarised below and charged to Subhead B.6. A listing of recipients of the funding and the amounts paid is available on the HSE website (www.hse.ie).

Lottery spend by HSE Regions

	2014	2013
	€000	€000
Dublin Mid Leinster Region	1,103	1,202
Dublin North East Region	1,349	337
South Region	921	1,049
West Region	916	1,011
Total	**4,289**	**3,599**

HSE capital expenditure funded from the National Lottery in 2014 amounted to €2.5 million (2013: €2.5 million) and is charged to Subhead D.2.

6.2 Legal Fees and Compensation

Legal costs paid during the year are categorised as follows:

Legal Fees Paid	2014	2013[a]
	€000	€000
Legal fees paid	13,287	44,454
Legal compensation costs paid[b]	843	306
Total	**14,130**	**44,760**

The HSE paid a further €87,790 in respect of various claims brought against it and settled in 2014 which were not covered under insurance.

Redundancy payments of €1.8 million were paid in 2014.

Other ex-gratia payments made during 2014 amounted to €25,300 and other miscellaneous payments amounted to €1.36 million.

There were a total of 250 outstanding claims against the HSE with HSE Insurers at the end of 2014.

The HSE had 118 outstanding claims for compensation at 31 December 2014 which are not covered by the HSE insurance policy.

[a] Legal fees and compensation paid in 2013 include the Children & Family Services (Tusla).

[b] The compensation amount excludes payments made by the State Claims Agency on behalf of the HSE in settlement of claims and these amounts are charged to Subhead B.11.

Insurance

Prior to 1 January 2001, HSE insurance premium was subject to retro-rating. Under the retro-rating basis, the final premium is not determined until the end of the coverage period and is based on the HSE's loss experience for that same period. The retro-rated adjustment payable by the HSE is subject to maximum and minimum limits. At 31 December 2014 it was not possible to accurately quantify the liability, if any, which may arise as a result of future retro-rating. The maximum liabilities for retro-rated claims still outstanding, based on agreed levels of each insurable risk is €5,000 and €980,500 for employers liability and public liability respectively. All insurance premiums from 1 January 2001 have been paid on a flat basis only and no retro-rating applies to cover from this date forward. Until the transfer to State indemnity on 1 January 2010, the HSE was insured against employer's liability and public liability risks up to an indemnity limit, under both retro-rated and flat-rated bases.

Insurance - State Claims Agency

Since 1 July 2009, the HSE is funded for claims processed by the State Claims Agency under the terms of the Clinical Indemnity Scheme. From 1 January 2010, the National Treasury Management Agency (Delegation of Functions) Order 2009 extended the State indemnity to personal injury and third party property damage claims against the HSE. Awards paid to claimants under the terms of the scheme are accounted for on a pay-as-you-go basis. At 31 December 2014, the estimated liability incurred to that date under the Clinical Indemnity Scheme and State indemnity was €1,277 million (2013: €1,084 million). Of this €1,277 million, approximately €1,139 million relates to active claims in respect of clinical care, with the balance of the estimated liability relating to non-clinical care claims. In 2014, €129.4 million (2013: €124 million) was charged to the appropriation account.

There were a total of 4,506 outstanding claims against the HSE with the State Claims Agency at 31 December 2014.

6.3 Prompt Payment of Account Interest

Prompt payment interest paid by the HSE in 2014 was €335,945 (2013: €197,000). The increase in prompt payment interest in 2014 is due to an increase in the statutory interest rate for late payment and the abolition of the €5 minimum interest rate payment on individual invoices.

Compensation due to suppliers since the commencement of new legislation in relation to prompt payment in March 2013 has not been paid. Accrued expenses includes an accrual of €9 million to recognise the expected cost of compensation due to suppliers.

6.4 Contingent Liabilities

The HSE is involved in a number of claims involving legal proceedings which may generate liabilities, depending on the outcome of the litigation. The HSE has insurance cover for professional indemnity, fire and specific all risk claims. In most cases such insurance would be sufficient to cover all costs, but this cannot be certain due to indemnity limits and certain policy conditions. The financial effects of any uninsured contingencies have not been provided in the account.

The HSE is currently involved in a legal dispute with a number of drugs importing companies with respect to the implementation of cost savings and other initiatives outlined as part of a framework agreement between the Irish Pharmaceutical Healthcare Association (IPHA), the Department of Health, and the HSE, which came into effect on 1 November 2012. The outcome from the dispute process based on the current stage of legal proceedings remains uncertain and therefore difficult to quantify any potential liability which may arise.

6.5 Other

The HSE paid €6 million in respect of insurance premia in 2014 (2013: €4 million) and this is reflected in the outturn for Subhead A.1 and B.1 to B.4.

6.6 Suspected Fraud	2014 €000
Suspected fraud in relation to vendor details	28

6.7 Voluntary Disclosure in relation to Underpayment of Taxes.

Following an internal review of tax compliance, the HSE made an unprompted qualifying voluntary disclosure to the Revenue Commissioners in respect of unpaid tax covering the period 2011, 2012 and 2013. The disclosure was finalised in December 2014. A total payment of €21.6 million including interest and penalties was made to the Office of the Revenue Commissioners during 2014.

This voluntary disclosure was agreed with the Revenue Commissioners in August 2015 and a final payment of €800,000 was made in 2015.