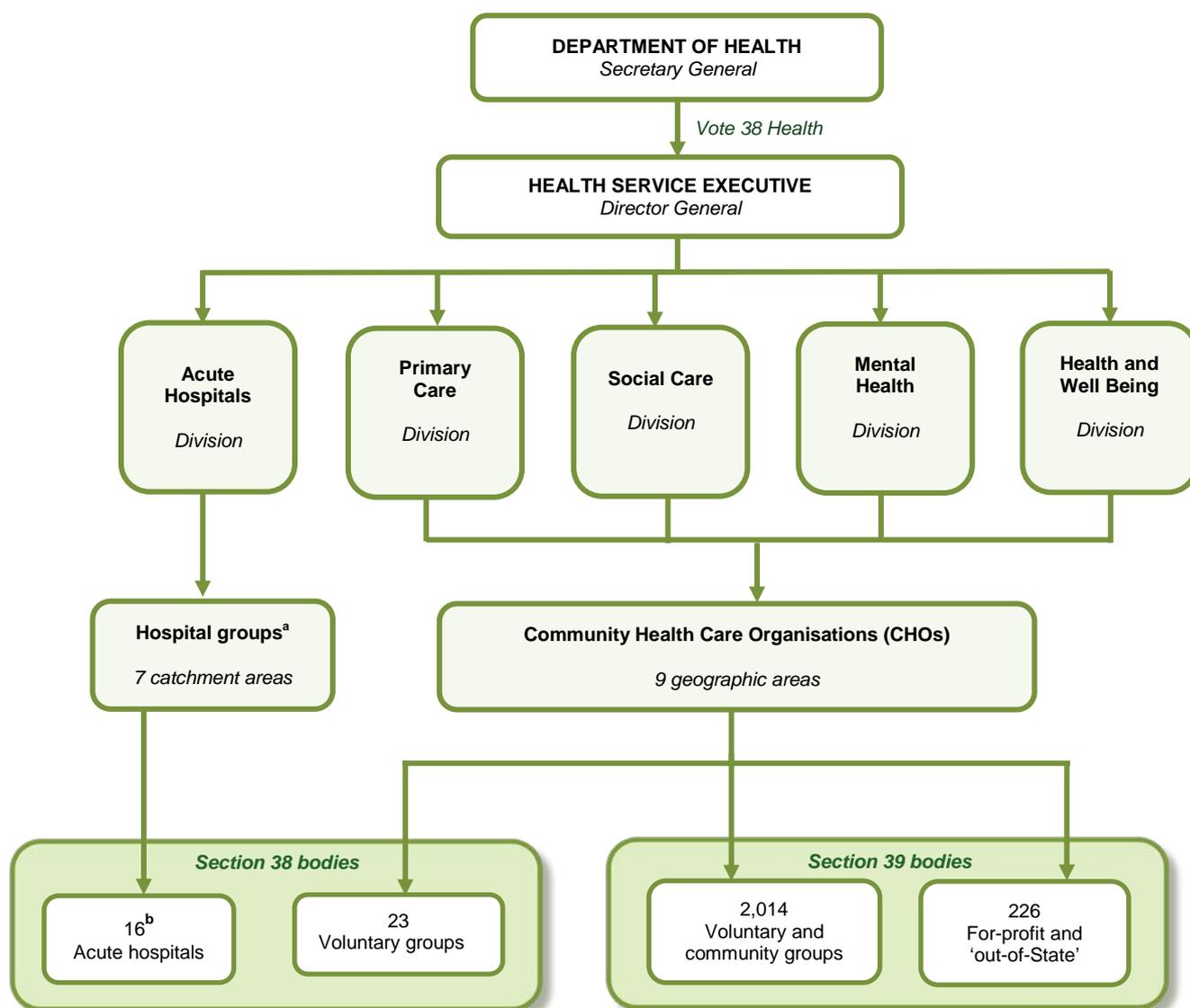


19 Management and Oversight of Grants to Health Agencies

- 19.1** A primary function of the HSE is to manage and deliver health and personal social services. It can either do this itself or enter an arrangement with a service provider to deliver the service. The legal framework available to the HSE for funding such service providers is set in sections 38 and 39 of the Health Act 2004.
- Under Section 38, the HSE may enter into an arrangement with a body or person for the provision of health and personal social services on behalf of the HSE; the employees of such a body are public servants.
 - Under Section 39, the HSE may give assistance to any person or body that provide services similar or ancillary to those provided by the HSE; the employees of such bodies are not public servants.
- 19.2** The HSE's current system of grant based funding has evolved over time from a long-standing model of service provision whereby the State relies substantially on the voluntary sector to provide certain health services. These arrangements are put in place in most cases by negotiation rather than competitive procurement. The majority of the arrangements are with voluntary agencies, but the HSE also has a number of arrangements with commercial for-profit organisations.¹
- 19.3** Health agencies funded by the HSE in this manner vary in scale and complexity, ranging from large acute hospitals to local community-based organisations providing personal social care services. The Department of Health allocated Exchequer funding of €13.92 billion to the HSE in 2016 — €13.51 billion towards revenue expenditure and €0.41 billion towards capital expenditure.
- 19.4** The HSE approved grants of around €3.876 billion to almost 2,300 health agencies during 2016 for the delivery of a range of services. In all cases, grant funding is disbursed in advance of service delivery with the agreement of the Department of Public Expenditure and Reform (DPER).
- 19.5** Some of the service providers have access to other funding streams such as patient charges, fundraising, other government departments and State agencies. However, many rely substantially on the Exchequer funding they receive from the HSE to fund the services they provide. Figure 19.1 provides an overview of the flow of funds to Section 38 and Section 39 bodies.

¹ Includes a small number of 'out-of-State' providers. Where a specialised service is not available in Ireland, but is available in another jurisdiction, the HSE may enter into an arrangement with an 'out-of-State' agency for the provision of the service.

Figure 19.1 Flow of funds to health agencies



Source: Office of the Comptroller and Auditor General

- Notes:
- a One hospital group comprising HSE statutory hospitals only does not fund Section 38 bodies.
 - b For historic reasons, four voluntary hospitals that are Section 38 bodies are subject to audit by the Comptroller and Auditor General: St James's Hospital, Beaumont Hospital, Leopardstown Park Hospital and Dublin Dental Hospital. All other Section 38 and Section 39 service providers appoint their own auditors.

Responsibility for oversight arrangements

- 19.6** The services provided on behalf of the HSE by grant funded agencies normally fall under one of the following categories — acute hospital services, disability, older persons, mental health, social inclusion, palliative care, primary care, health and wellbeing services. The HSE has two types of contractual agreements with these agencies that are in the main tailored to reflect the level of funding
- **service arrangement** — health agencies in receipt of funding in excess of €250,000 and for-profit and 'out-of-State' agencies
 - **grant aid agreement** – health agencies in receipt of funding less than €250,000.
- 19.7** Grants to health agencies are administered through nine Community Health Care Organisations (CHOs) located around the country and through six hospital groups. They are responsible for the negotiation of service arrangements and grant aid agreements, payment of grants to the agencies and monitoring and oversight of the terms and conditions of the agreements. An analysis of grant funding provided in 2016 by contract type and type of funding is set out in Figure 19.2.

Figure 19.2 Service arrangements and grant aid agreements, 2016

Funding level	Number of Agencies	Grant allocation			Average revenue grant €m
		Revenue €m	Capital €m	Total ^a €m	
<i>Service arrangements</i>					
— large grant (€250,000+)	343	3,716.62	93.84	3,810.46	10.84
— other ^a	226	33.44	—	33.44	0.15
<i>Grant aid agreements</i>					
— < €250,000	1,710	32.07	—	32.07	0.02
Total	2,279	3,782.13	93.84	3,875.97	

Source: Health Service Executive

Note: a For-profit and 'out-of-State' agencies who regardless of the level of funding are subject to a service arrangement.

Focus of the examination

- 19.8** The HSE's financial statements for year end 31 December 2016 were certified on 16 May 2017. The audit report drew attention to the statement on internal financial control which disclosed instances of inadequate monitoring and oversight by the HSE of grants to outside agencies during 2016. Similar disclosures were made by the HSE in previous years.
- 19.9** This report draws on the results of examination of the HSE's monitoring and oversight arrangements carried out as part of the audit of the financial statements of the HSE. It deals primarily with agencies managed by way of service arrangements which account for the majority of the funding provided.

19.10 As part of the 2016 audit, the HSE's process for management and oversight of revenue grants to 49 Section 39 health agencies in two Community Health Care Organisations were also reviewed. This comprised

- 25 health agencies managed under service arrangements that were provided with funding of €52.84 million (an average of €2.1 million each)
- 24 health agencies managed under a grant aid agreement that were provided with funding of €1.74 million (an average of €72,500 each) in 2016.

19.11 As part of the audit of the HSE's annual financial statements, the audit team also visit a small number of Section 38 and Section 39 agencies. For the financial years 2013 to 2016, a total of nine agencies have been visited. Any issues identified during these visits are communicated to the HSE.

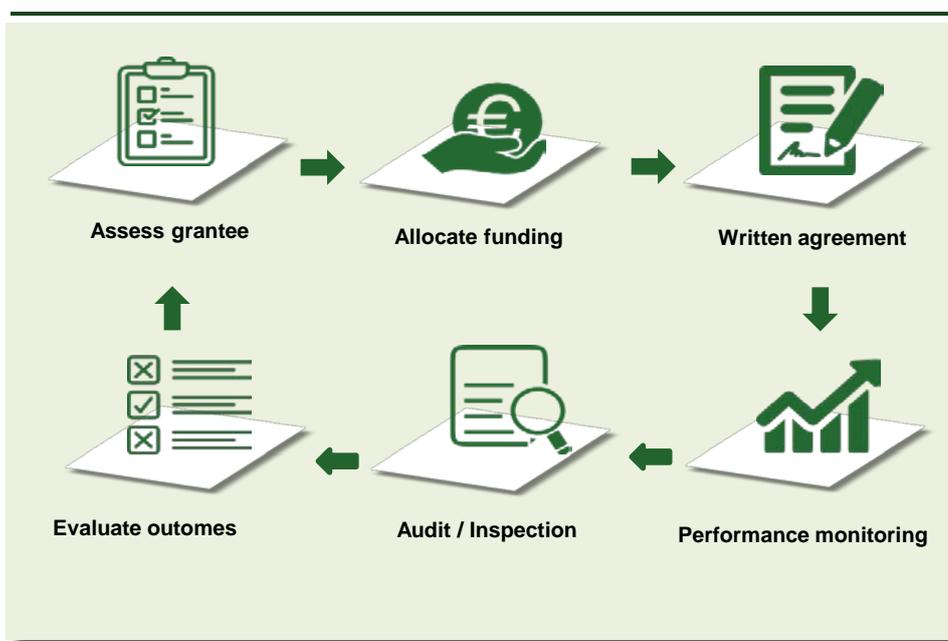
19.12 Capital grants to health agencies in 2016 amounted to €94 million. This examination does not comment on the HSE's control over those grants.

Framework of oversight and monitoring

19.13 Figure 19.3 sets out the main components of an effective system of internal control over recurrent grant payments. The nature and extent of controls operated would depend on

- the purpose for which the funding is provided
- the basis on which the funding is provided
- the type of grantee
- the scale of the grant involved.

Figure 19.3 Framework of assurance over grant payments



Source: Office of the Comptroller and Auditor General

Service arrangements

- 19.14** The HSE's service arrangements comprise two parts.
- Part 1 — contains around 37 clauses and sets out the contractual obligations of both parties to the arrangement. It covers the roles and responsibilities of both parties and matters such as complaints, dispute resolution and termination of the arrangement. This part is negotiated and signed on a multi annual basis and covers periods of up to four years.
 - Part 2 — is agreed and signed on an annual basis. It comprises ten schedules and specifies the quality and quantum of service to be provided; performance monitoring arrangements; information requirements; and the funding allocation.
- 19.15** While each service provider has a single part 1 arrangement with the HSE, the number of part 2 arrangements depends on whether the agency is based in multiple locations and/or receives different categories of funding from the HSE. Consequently, one agency may have several part 2 arrangements with a number of CHOs. An example of this is shown in Figure 19.4 in relation to Enable Ireland, a Section 39 agency that received a total revenue grant allocation in 2016 of €36.9 million. This was administered across eight of the nine CHOs and was managed under 17 part 2 arrangements.
- 19.16** Because funding can be provided through a number of CHOs, a single agency with multiple locations could be subject to monitoring by up to nine CHOs. The HSE noted that the preferred system would be to designate a lead CHO — the CHO providing the largest funding by value with that CHO having lead responsibility for co-ordination of the monitoring arrangements. The HSE acknowledges certain work needs to be done to achieve this. It further noted that the management teams in the CHOs have only been appointed in the recent past and they will be central to the implementation of this approach.
- 19.17** The HSE stated that, in line with health service reform, each CHO is responsible, and therefore accountable, for the delivery of all social care services within its prescribed boundary. Enable Ireland is a 'specialist' service provider that delivers a range of services from residential support to therapeutic interventions, specialised seating/assistive technology and augmentative communication aids. Services or support requirements can change according to need and in respect of emergency responses therefore leading to multiple funding streams linked to the appropriate HSE divisions.
- 19.18** The HSE also stated that it is working towards streamlining the number of part 2 arrangements. The aim is to ultimately have one part 2 arrangement per CHO for each divisional category/requirement.
- 19.19** For the 25 agencies examined, the audit reviewed 29 part 2 service arrangements in the two CHOs visited. The audit findings presented hereafter are in the context of those 29 arrangements.

Figure 19.4 Enable Ireland part 2 service arrangements, 2016

Community Health Organisation	Area	Category of service	Grant allocation €
CHO 1	Cavan/Monaghan	Disability	1,372,238
CHO 2	Galway	Disability	1,882,081
	Galway	Disability	4,000
	Mayo	Disability	888,123
CHO 3	Clare	Disability	2,139,907
	Clare	Primary care	167,051
	Limerick	Disability	2,760,676
	North Tipperary/ East Limerick	Disability	1,577,543
	North Tipperary/ East Limerick	Disability	2,035,318
	North Tipperary/ East Limerick	Primary care	417,270
CHO 4	Cork/Kerry	Disability	5,943,297
CHO 5	Carlow/ Kilkenny	Disability	1,046,168
CHO 6	Wicklow	Disability	12,557,988
CHO 7	Dublin South West	Disability	201,489
	Dublin South West	Disability	874,555
	Kildare/ West Wicklow	Disability	83,734
CHO 8	Meath	Disability	3,007,618
CHO 9			—
Total			36,959,056^a

Source: Health Service Executive

Note: a The grant allocation figure for Enable Ireland of €36.96 million was extracted from the HSE's service provider grants system. The HSE's annual financial statements for year-end 31 December 2016 disclose total funding to Enable Ireland of €38.75 million. The reason for the difference is due to timing and certain elements of funding not being recorded on the service provider grants system.

Assessment of grantees

19.20 Assessing the appropriateness of potential grantees is important in order to identify any potential weaknesses and risks prior to the allocation of funding. Any assessment should include confirmation that the agency has adequate safeguards and accountability arrangements in place in respect of the grant funding being provided, including assessment of the following.

- Appropriateness of structures to deliver the required service — this would include a review of the legal status of the agency and, where appropriate, whether the agency is registered with the Charities Regulator and the Health Information and Quality Authority.^{1,2} It should also include a review of the organisational structure including composition of the service provider's executive.
- Adequacy of governance arrangements — consideration of whether the agency has a code of governance setting out the principles, policies, procedures and guidelines by which the agency directs and controls its functions and manages its business.
- Effectiveness of service providers strategic planning processes — this would include an assessment of the grantee's statement of strategy and business plans.

19.21 For the 29 arrangements, the examination sought to establish the extent to which the HSE had reviewed the governance arrangements in these agencies (see Figure 19.5).

Figure 19.5 Evidence of governance arrangements in sample of cases reviewed

Governance documents	Evidence of compliance ^a	
	Yes	No
Memorandum and articles of association or other constitutional documents	79%	21%
Structure/organisation chart	100%	—
Code of governance/corporate and clinical governance policy	55%	45%
Business plan	41%	59%

Source: Office of the Comptroller and Auditor General

Note: a Cases were deemed compliant where the relevant governance documents were on the HSE files.

19.22 The audit also identified a number of issues with governance arrangements and systems of internal control in the nine Section 38 and Section 39 health agencies visited as part of the audit of the HSE's financial statements for the financial years 2013 to 2016. A summary of these issues is set out in Figure 19.6.

1 The Charities Regulator was established in October 2014 under the Charities Act 2009 to establish and maintain a public register of charitable organisations operating in Ireland and to ensure their compliance with the Charities Acts.

2 The Health Information and Quality Authority (HIQA) was established in May 2007 under the Health Act 2007, to drive high-quality and safe care of people using health and social care services in Ireland. HIQA's mandate extends across a range of public, private and voluntary sector services.

Figure 19.6 Summary of issues, 2013 to 2016

Area	Issues	Number of agencies
Procurement	<ul style="list-style-type: none"> ▪ Instances of non compliant procurement 	7
Propriety	<ul style="list-style-type: none"> ▪ No hospitality policy ▪ No credit card policy 	6 2
Governance	<ul style="list-style-type: none"> ▪ No internal audit 	2
System of internal control	<ul style="list-style-type: none"> ▪ No statement on internal financial control ▪ Significant overdraft at year end ▪ No fixed asset register 	2 2 2
Remuneration	<ul style="list-style-type: none"> ▪ Chief Officer remuneration not disclosed in financial statements 	2

Source: Office of the Comptroller and Auditor General

Allocation of funding

- 19.23** The HSE provides funding to health agencies in advance of expenditure being incurred, on the basis that a significant amount of the funding is in respect of pay and staffing costs, where advance funding is required to meet contractual obligations. This gives rise to a risk of under utilisation of grant where a health agency does not operate to full capacity in the year.

Acute hospital services

- 19.24** Sixteen hospitals in the acute sector were provided with a revenue grant allocation of around €1.99 billion for 2016. Historically the HSE funded hospitals in the acute sector by way of a block grant. This method allocated funding to hospitals based on their budget for the previous years with some adjustments for factors such as inflation, expected service levels, reconfiguration and the available budget for the acute sector.
- 19.25** In January 2016, the HSE introduced activity-based funding in the acute hospital sector. Under activity-based funding, grant allocations are provided to hospitals based on national agreed prices and the number and mix of patients that they treat using diagnosis-related groups to classify inpatient and day patient cases.¹
- 19.26** Activity-based funding is being introduced to the acute sector on a phased basis. It currently covers inpatient and day case activity which the HSE has estimated accounts for around 70% of total funding to the acute sector. The remaining 30% continues to be funded by way of a block grant.

¹ A diagnosis-related group (DRG) is a statistical system of classifying hospital activity into categories for the purposes of payment. The DRG classification system divides possible diagnoses into more than 20 major body systems and subdivides them into almost 500 groups.

- 19.27** The change in the funding method is being supported by transition adjustments to allow hospitals time to address any cost or efficiency issues before they are exposed to the full impact of activity-based funding. Under the transition adjustments, individual hospitals receive a proportion of the difference between its budget calculated using activity-based funding and the traditional block grant. It is anticipated that transition adjustments will be phased out over a number of years. The anticipated benefits of activity-based funding include
- setting of target levels of activity
 - better alignment of hospital funding with the number of patients treated and the complexity of treatments provided
 - enhanced performance monitoring of hospitals.

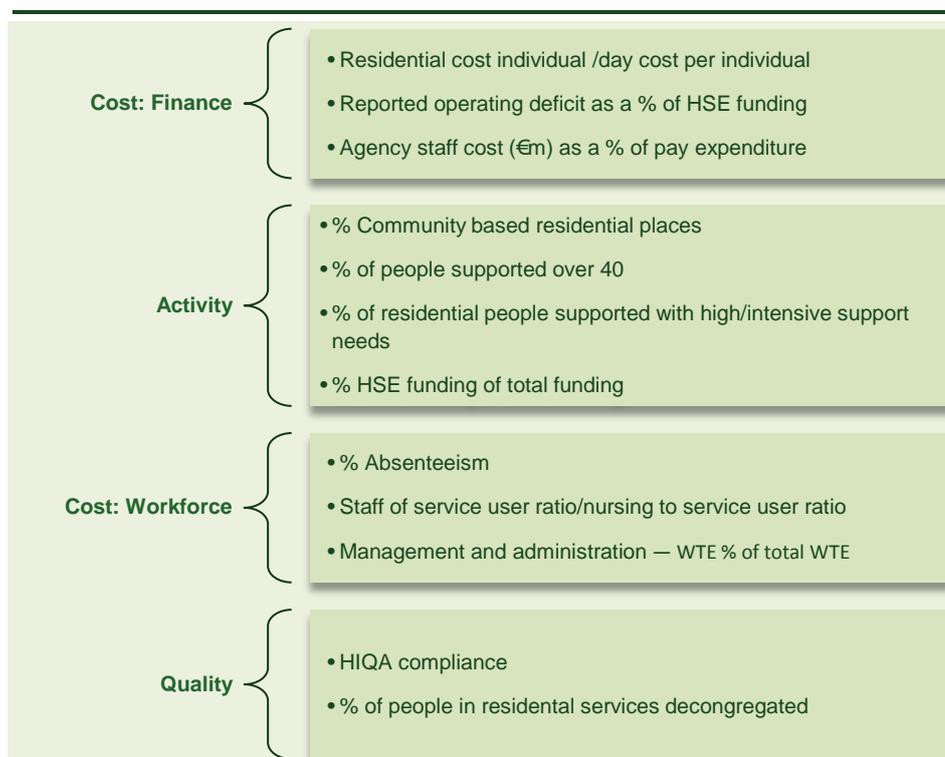
Voluntary and community services

- 19.28** Revenue grants of around €1.79 billion provided to the voluntary and community agencies in 2016 were on the basis of budgets compiled by the service provider setting out the outputs it can deliver along with the associated staffing arrangements and costs. The HSE is currently examining approaches to classifying and costing community services in order to extend activity based funding to that sector.
- 19.29** The HSE stated that it is establishing a strategic community costing programme to determine unit costs of services so that providers can understand where their costs might be out of line with peers for similar service offerings, and to help to discern the most productive use of resources. The HSE noted that in common with international experience, the nature of social care services in Ireland makes a service provider comparison on costs per output difficult, as there are regional, service provider and individual service user variables which need to be considered.

Disability services

- 19.30** The disability sector, which accounts for around €1.2 billion (67%) of the voluntary and community agencies funding, has developed a national standard service specification within the part 2 arrangements. This includes information on the total number of service users by type of service e.g. residential, day care, respite etc. that are linked to national key performance indicators along with the associated costs. This allows for the calculation of a cost per unit of service e.g. for a residential place or a day place.
- 19.31** In 2014, the HSE established a service improvement team with the objective of enhancing accountability arrangements with service providers in the disability sector. The first phase of the team's work included preparing baseline analysis linking funding provided with activity, cost, quality and outcomes for the top five largest service providers that account for €557 million or 46% of the disability budget. From this work, the service improvement team has identified 12 performance indicators (see Figure 19.7).
- 19.32** The model developed for the top five funded agencies is now being extended to the top 50 service providers accounting for over 80% of the disability budget. The HSE expects that this analysis will facilitate benchmarking of service providers using specified performance indicators which include inter alia, unit cost of service provided.

Figure 19.7 Baseline analysis top five funded disability services agencies — performance indicators



Source: Health Service Executive

Written agreement

- 19.33** A written agreement should clearly define the terms of the relationship between the HSE and the agency. Part 2 of the service arrangement, signed on an annual basis, specifies the quality and quantum of service to be provided, the performance monitoring arrangements that will be in place, the information to be supplied by the agency to the HSE and the funding allocation.

Specification of outputs

- 19.34** For the 29 arrangements reviewed, the examination found that there was an adequate specification of outputs. In all cases, there was a description of the type of service to be provided, the type of outputs and the number of individuals the service would be provided to. Examples of this include the number of service users provided with supports, day services and residential services.

Performance monitoring arrangements

19.35 The frequency of performance reporting is at the discretion of each CHO. While there is central guidance setting out appropriate levels and frequency of reporting by health agencies taking account of the size of the agency, the level of grant funding being provided and the nature of the service funded the audit noted variation in the application of this. For example,

- the service arrangement of one agency allocated a grant of €31.6 million specified that the agency provide quarterly service activity information
- the service arrangement of another agency allocated a grant of €1.17 million specified that service activity information was to be returned monthly.

19.36 Performance monitoring for the most part comprised the following

- review of key performance indicators
- monitoring meetings and/or site visits as appropriate
- review of the agencies' annual financial statements
- annual compliance statement.

Timeliness

19.37 Previous audit findings identified delays in agencies agreeing and signing service arrangements. In early 2016, the HSE decided that any agency not in compliance with the requirement to sign a service arrangement would only receive 80% of the normal rate of funding until such time as the service arrangement was signed.

19.38 The HSE aimed at ensuring that all 2016 service arrangements would be agreed by end February 2016. In practice, arrangements accounting for 90% of funding had been completed by the end of April 2016. Arrangements accounting for 95% of the funding had been signed by end 2016.

Monitoring and reporting

19.39 Monitoring expected outcomes is important to ensure that funds are used efficiently and effectively and that there is no improper or irregular expenditure. The level of performance monitoring in many cases depended on the level of funding and the type of service being funded.

Key performance indicators

19.40 In order to determine whether a grantee has used the funding provided effectively and efficiently, it is important that the HSE set appropriate key performance indicators for funded agencies. The examination found that for over half of the agencies reviewed, there were key performance indicator returns on file and almost three quarters of these were at the frequency specified in the service arrangement.

Other information requirements

19.41 For the 29 arrangements reviewed, the audit noted variation in the level and type of other information sought in the part 2 arrangements in the CHO's visited. A significant amount of the other information sought was not being submitted by the health agencies and the CHO was not following up on the non-submission of this information. However it is unclear what information is actually being sought by the HSE in relation to these requirements. Examples include "review of service plan priorities", "health statistics (as relevant) to HSE" and "quarterly monitoring returns on the value for money review initiatives including to rationalise staff deployment patterns in line with client need".

Monitoring meetings

19.42 The number of monitoring meetings between HSE and agency officials required in a year depends on the level of grant funding. (Where a health agency receives less than €50,000 in a given year, the HSE does not require monitoring meetings to be carried out.) Minutes of the meetings are required to be maintained with the meeting following a formal agenda that includes reviewing the health agency's

- key performance indicators
- overall performance including specified outcomes
- compliance with rules and regulations
- governance arrangements
- annual audited financial statements.

19.43 For six of the 29 arrangements examined the grant allocations were below €50,000, therefore no monitoring meetings were required to be carried out. As shown in Figure 19.8, there was evidence on file for 78% of the cases that the required monitoring meetings were carried out at the required frequency.

Figure 19.8 Evidence of monitoring meetings

Grant allocation	Number of agencies in sample	Prescribed number of meetings each	Evidence of compliance ^a	
			Yes	No
€50,000 — €500,000	9	1	78%	22%
€500,000 — €5,000,000	13	2	77%	23% ^a
> €5,000,000	1	6	100%	—
All	23		78%	22%

Source: Office of the Comptroller and Auditor General

- Notes:
- a Cases were deemed compliant where there were minutes of the meetings on file for the required number of meetings.
 - b Includes two cases where one monitoring meeting took place instead of the required two meetings.

Annual audited financial statements

- 19.44** The HSE seek assurance from the audited financial statements that the funding is spent for the purposes intended and the related expenditure is capable of being vouched to original invoices, receipts and/or other relevant supporting documentation, as appropriate. All grant funded agencies managed under a service arrangement are required to submit audited annual financial statements to the HSE. The audit found for the 29 arrangements examined
- There was evidence on file in the CHOs visited that audited financial statements had been received and reviewed by the HSE for 13 service arrangements.
 - Audited financial statements had been received and reviewed by a different funding CHO for 11 service arrangements, but the audit found no evidence that the funding CHO visited had obtained written assurance in this regard.
 - For five arrangements, audited financial statements had not been received or reviewed by the HSE.
- 19.45** The HSE noted that the Compliance Unit are currently developing a system in order to provide a central facility for CHOs to record information on the receipt and review of the service providers' annual audited financial statements.
- 19.46** In both of the CHOs visited, the audit found that a review of an agency's financial statements includes
- reconciling the income per the service providers financial statements to HSE records
 - considering the type of audit opinion
 - reviewing the service provider's liquidity and performance in the period.
- 19.47** The audit noted that in one CHO, the review also considered the extent to which the agency had fully utilised the grant allocated to them in the period.

Annual compliance statement

- 19.48** Since 2014, Section 38 health agencies are required to provide a statement of compliance confirming the agency's compliance with specified standards including the HSE code of governance, good practice risk management procedures, public sector pay policy, taxation and procurement rules. The statement must be approved by the Board of directors or governing body of the service provider and be signed by the chairperson and one other member on behalf of the Board of directors or governing body. The requirement to submit an annual compliance statement has been extended to Section 39 agencies in receipt of grant funding in excess of €3 million for 2016.
- 19.49** For 2016, 37 compliance statements were due to be submitted by 31 May 2017 by Section 38 health agencies.¹ 35 statements had been received by the HSE by mid September 2017 with the remaining two in progress. Compliance statements were also due for 51 of the Section 39 agencies of which 46 had been received by mid September 2017 and five were in progress.

¹ One service provider, Cork University Dental School and Hospital, are not required to submit a return as it is part of University College Cork and is governed under the Universities Act 1997. Two service providers submit one combined statement — St. Vincent's University Hospital and St. Michael's Hospital.

- 19.50** At the time of completion of this report, the HSE had not yet completed their analysis of the 2016 compliance statements. Analysis by the HSE of the statements returned for 2014 and 2015 had been completed and is summarised in Figure 19.9. Areas of concern highlighted in the compliance statements submitted by the agencies include: compliance with procurement rules and regulations, and compliance with public sector pay policies.
- 19.51** The HSE stated that following review of the annual compliance statements received, the HSE formally writes to the Chairperson of each provider noting any areas of non-compliance indicated within their statement, or recurring matters from previous statements, requesting the provider to address these issues and reply accordingly. All matters and relevant correspondence are brought to the attention of the National Directors, Hospital Group CEOs and Chief Officers. The HSE further stated that it has taken a number of steps to address the compliance issues identified.

Figure 19.9 Summary of annual compliance statements, 2014 to 2015

	Number of agencies compliant ^a	
	2014	2015
Number of returns received	37	36
Confirmations/assurance provided	2014	2015
Current tax clearance certificate held	37	36
Formal risk management system in place	34	32
Capital asset funded/part funded by HSE — the State's interest is protected by the provider through entering a grant agreement	32	31
Internal code of governance adopted	28	31
Annual financial statements have been prepared and audited ^b	31	32
Compliance with public sector pay policy confirmed	31	18
Appropriate governance arrangements in place ^c	18	18
Compliance with procurement rules and regulations confirmed	24	14

Source: Health Service Executive

- Notes:
- a All required annual compliance statements were submitted for 2014. In 2015, one body did not submit a compliance statement by agreement with the HSE.
 - b The HSE requires that the annual financial statements of the service provider for the period covered by the annual compliance statement have been audited and a copy of the annual financial statements along with the external auditor's certificate are supplied with the compliance statement.
 - c Issues of non compliance related to board membership, employees on boards, board sub-committees, documented procedures and board reviews.

- 19.52** In relation to the procurement issues identified, the HSE noted the following
- It has provided each Section 38 agency with a set of procurement guidelines, a list of current centralised contracts and frameworks in place, and a training programme specifically aimed at procurement staff in those organisations.
 - With effect from June 2017, all Section 38 and Section 39 providers in receipt of funding in excess of €150,000 have also been provided with access to an online facility that provides information on all current HSE and Office of Government Procurement contracts and framework agreements in place. HSE procurement will continue to work with, and provide ongoing support to, the Section 38 and Section 39 providers regarding procurement matters.

- 19.53** In relation to compliance with public sector pay policy, there is an ongoing process in place where HSE Human Resource (HR) division is in direct contact with voluntary agencies and is working through the issues involved. HSE HR is also engaging with the Department of Health and the Department of Public Expenditure and Reform on these issues. More recently, the HSE has also taken the following steps.
- Following a number of previous correspondences, the HSE issued another communication to all Section 38 service providers (2 December 2016) which set out inter alia the process to be followed to deal with any outstanding matters in Section 38 service providers regarding health sector pay policy.
 - In July 2017, the HSE's National Director of HR wrote to all Section 38 service providers giving direction on further aspects of compliance with public sector pay policy and to seek assurances on current compliance within their organisation or, if there is any non-compliance, on the corrective action to be taken.

External governance reviews

- 19.54** During 2016, the HSE commissioned external reviews of the governance at Board and executive level in all Section 38 agencies. The reviews sought to establish the level and standard of governance in place and to provide assurance to the HSE that the governance practices and procedures accord with each agency's annual compliance statement.
- 19.55** As of August 2017, three external reviews have been completed and 28 are currently underway. The HSE expect to complete reviews for all Section 38 agencies by the end of 2017. It is proposed that following completion of these reviews in 2017, repeat reviews would be carried out over a five year cycle. The HSE informed the examination team that issues emerging from the completed reviews to date include: non compliance with procurement rules and regulations; non compliance with public sector pay policy; and the absence of internal audit functions.
- 19.56** The HSE noted that the management responses in the governance reports will be examined for each provider. These responses, as relevant, will be followed up with each provider to ascertain progress with, and obtain confirmation regarding, the actions being undertaken by them to address the report findings and recommendations within the reports. This will include meeting with the CEO or Board Chair where required.
- 19.57** The HSE also noted that future external reviews will focus on issues identified in the current process and also on issues identified by HSE Internal Audit and the Comptroller and Auditor General and will include an examination of the relevant matters contained in the memo to the Board Chairs and CEOs as outlined earlier in the report.

Grant aid agreements

- 19.58** Around 1,700 agencies allocated revenue funding of around €32 million in 2016 were managed under a grant aid agreement. Agencies managed under this type of agreement are required to have a governing document (rules, constitution, memorandum and articles etc.) that is required to be available on request. In half of the 24 cases examined, a governing document was on file.
- 19.59** The audit found that for 21 (87%) of the cases reviewed with a total funding allocation of €1.5 million, the grant aid agreements in relation to 2016 funding were signed by end February 2016. These accounted for 86% of the funding provided under the grant aid agreements examined. The remaining three cases were signed as follows
- one agreement signed in April 2016 — €220,000
 - two agreements signed in August 2016 — €13,884.
- 19.60** Funding allocations under grant aid agreements are based on general descriptions of the service (or services) to be provided. The agreement does not specify outputs to the same degree as is specified in a service arrangement. From the sample of cases reviewed, examples of the purpose of the grant included
- provision of services to males and females over the age of 20 years experiencing problems with addiction
 - healthy lifestyle promotion programme targeting children from birth.
- 19.61** Performance monitoring does not include the setting or reviewing of key performance indicators. Instead it focuses on
- monitoring meetings and/or site visits as appropriate
 - review of the agency's financial statements and chairperson's statement.

Monitoring meetings

- 19.62** No monitoring meetings were required to be carried out for 14 of the 24 cases examined because the grant allocation to each agency was below €50,000. There was evidence on file in nine of the remaining ten cases that the required monitoring meetings were carried out at the frequency required.

Annual audited financial statements

- 19.63** The requirement to submit financial statements is dependant on the agencies total income. The grant aid agreement specifies the following
- where the agency's income exceeds €150,000, the agency is required to submit annual audited financial statements within ten months of their financial year end
 - where its income is less than €150,000, the agency must submit a set of approved annual financial statements within six months of the agency's financial year end.¹
- 19.64** In practice, the HSE implements this requirement by reference to the level of HSE funding provided rather than the agency's total income.

¹ The HSE do not require these accounts to be independently audited, but they must be signed and dated by the organisation's chairperson, secretary and treasurer and approved by the organisations governing body.

- 19.65** Of the 24 cases examined, four agencies received more than €150,000 each, and so were required to submit audited financial statements. The audit found that one agency with a funding allocation of €213,000 had submitted audited financial statements; the three remaining agencies with a combined funding allocation of €644,000 had submitted draft unaudited financial statements. The audit found evidence that in all cases the accounts had been reviewed within the HSE.
- 19.66** The remaining 20 cases were required to submit signed and approved unaudited annual accounts. As shown in Figure 19.10, the audit found that only seven of the 20 cases were compliant in this regard.

Figure 19.10 Evidence of unaudited approved annual accounts on file

Type of annual accounts on file	Number of cases		Grant allocation (aggregated) €
	On file	Reviewed by HSE	
Approved annual accounts	7	6	399,200
Annual accounts submitted not approved	4	2	289,926
No annual accounts submitted	9	—	192,805
	20	8	881,931

Source: Office of the Comptroller and Auditor General

- 19.67** In the seven cases where the required approved accounts were provided, the audit found evidence of review of six of them. Two of the four cases where draft unapproved accounts were provided had been reviewed by the HSE.

Annual Chairperson's statement

- 19.68** Health agencies funded under a grant aid agreement must submit an annual statement from the chairperson. This is a signed written declaration certifying that the grant was spent for the purposes intended. It also specifies that
- where the agency is in receipt of Exchequer funding from other State bodies, the statement must include a report on the amount, source and purpose of all such funding, and a declaration that there is no duplication of funding for the same activity
 - where the combined funding from the Exchequer exceeds 50% of the total funding for the agency, this must also be declared within the statement.
- 19.69** The examination found signed annual chairperson statements were on file for only one third of the agencies reviewed.

HSE Internal Audit

- 19.70** HSE's Internal Audit division carry out a programme of audits on externally funded agencies on an annual basis. The selection of these agencies for audit is, in the main, informed by discussion with HSE staff with responsibility for oversight and monitoring. In 2016, Internal Audit also commenced a programme of random audits of agencies in receipt of funding below €1 million. A summary of the types of issues identified by HSE internal audit from their reports published in 2016 is shown in Figure 19.11.

Figure 19.11 Summary of HSE Internal Audit Findings, 2016

Area	Summary of issues
System of internal control	<ul style="list-style-type: none"> ▪ High number of bank accounts. ▪ Incomplete accounting records. ▪ Absence of financial procedures and controls such as <ul style="list-style-type: none"> • lack of segregation of duties • transactions not authorised at appropriate levels • accounting reconciliations not being performed • weaknesses in purchasing controls.
Propriety	<ul style="list-style-type: none"> ▪ Expenditure on gifts and entertainment. ▪ Poor audit trails over credit card expenditure.
Governance	<ul style="list-style-type: none"> ▪ Non rotation of board members. ▪ Absence of policies and procedures regarding conflicts of interest of board members and confidential disclosures. ▪ Board members not completing standards in public office returns.
Remuneration	<ul style="list-style-type: none"> ▪ Salary payments in excess of approved pay scales. ▪ Senior staff in receipt of allowances and round sum payments. ▪ Staff in receipt of bonus payments.
Procurement	<ul style="list-style-type: none"> ▪ Contracts awarded without competitive procurement process. ▪ Lack of policies and procedures in relation to procurement. ▪ Documentary evidence not retained for the awarding of contracts.

Source: Health Service Executive Internal Audit

Department of Health Oversight of HSE

- 19.71** In 2016, the HSE funding of around €3.9 billion to Section 38 and Section 39 health agencies was sourced from the Department of Health's vote as follows
- €2.4 billion from subhead 1.5 in relation to funding for Section 38 acute hospitals
 - €1.5 billion from subheads 1.1 to 1.4 in relation to funding for Section 38 and Section 39 voluntary and community groups.
- 19.72** Section 31 of the Health Act 2004 requires the HSE to submit an annual service plan to the Minister for Health, setting out key priorities and targets including inter alia output measures and any new initiatives to be delivered during the period. The service plan also sets out the funding allocation by area of activity. Section 33 of the Health Act 2004 further requires the HSE to ensure that services are delivered in accordance with the service plan. In this regard, the HSE must submit quarterly performance reports to the Minister for Health comparing actual performance to the target levels set in the service plan.

- 19.73** The *Code of Practice for the Governance of State Bodies* requires the Chairperson of a State body to provide a comprehensive annual compliance report to the relevant Minister. This report includes a section on the system of internal control and discloses details of any breaches in control which occurred in the previous financial year.
- 19.74** On 1 June 2017, the Director General submitted this report to the Minister for Health in relation to the 2016 financial year. The report outlined significant breaches in internal control in relation to governance of grants to outside agencies. The breaches in control had also been disclosed in the statement on internal financial control included as part of the HSE's financial statements. The breaches included
- delays in signing service arrangements
 - absence of documentary evidence of monitoring meetings, review of periodic financial reports and staffing returns of funded agencies
 - audited financial statements not submitted, where required and no evidence of review of financial statements submitted in many cases
 - funded agencies not complying with public procurement guidelines or public sector pay polices.

Views of the Director General Health Service Executive

- 19.75** The management and oversight of grants to health agencies should be viewed in the context of the fact that in three years, the HSE have moved from a point where service arrangements were not being signed in a timely manner, and additional focus had to be brought to bear on the application of the governance framework, to a point where we now have a comprehensive governance and oversight process in place.
- 19.76** New service arrangements are now in place and are being completed in a timely manner. Annual compliance statements have been introduced for all Section 38 providers and the Section 39 providers in receipt of funding over €3 million which accounts for 93% of the funding.
- 19.77** To complement and enhance the financial oversight process, an annual financial monitoring return has been introduced for all providers in receipt of funding over €250,000 in relation to accounting periods ending on 31 December 2016 or later.
- 19.78** External reviews for Section 38 providers are nearing completion and a programme of rolling five year reviews of the top 50 funded providers, which account for 85% of funding, is being introduced.
- 19.79** In addition, the HSE issued a memo in June 2017 to all hospitals groups, CHOs, Board chairs and CEOs of Section 38 and Section 39 providers, outlining recurring issues of concern raised by HSE Internal Audit and by the Comptroller and Auditor General, directing that they ensure that these issues are addressed as a matter of urgency. Following a review of the compliance statements submitted for 2016, the HSE intends to write to the relevant Chairpersons seeking assurances that areas of non compliance are being addressed.
- 19.80** The service provider governance system, introduced in 2014 continues to be developed and enhanced and an extensive training programme has been delivered, aimed at operational staff in the CHO's, but also encompassing staff from the provider organisations.

- 19.81** In January 2017, the HSE issued an updated version of performance monitoring guidelines for overseeing the performance of Section 38 and Section 39 providers to CHOs. These provide updated guidance on the annual review of the service arrangements and grant aid agreements and the frequency and format of performance meetings. Work currently being undertaken by the service improvement will facilitate the development of a standardised assessment and performance monitoring system for disability services.
- 19.82** It should also be noted that these significant improvements in governance have been introduced during a period when the HSE is reorganising its delivery system through the establishment of hospital groups and CHOs. It should be borne in mind that due to the effects of the previous moratorium on recruitment, these new structures have taken, and are taking, time to bed down.
- 19.83** It is anticipated that when they are fully resourced the HSE will be in a position to further enhance and oversee the delivery of these services in a manner that will give ongoing assurance in relation to significant amounts of Exchequer funding involved. The introduction of a contract management support unit in each CHO is a good example of how the process and structures are evolving and will continue to evolve at operational level.

Annual financial monitoring return

- 19.84** In order to standardise the financial information received from the various organisations, the HSE introduced the annual financial monitoring return for accounting periods ending on 31 December 2016 or later. The return is required to be completed by all agencies managed under a service arrangement in receipt of funding in excess of €250,000.
- 19.85** The return must be submitted to the HSE with an agency's annual audited financial statements and should be signed by the chief financial officer and the chief executive officer or equivalents. The HSE recommends that the returns be submitted within five months of the year end.
- 19.86** The receipt and review of a Section 38 and Section 39's annual audited financial statements is a key assurance process in the HSE's governance framework as they provide assurance to the HSE on the use of the funding provided under the service arrangement. The annual financial monitoring return seeks to address difficulties encountered by staff involved in the review process including the following.
- Prior to the introduction of the annual financial monitoring return, finance personnel had difficulty extracting key financial information from an agencies annual financial statements due to different formats of presentation. The annual financial monitoring return standardises the presentation of financial information in a way that allows finance staff to easily examine key financial information.
 - Although agencies are contractually obliged to comply with DPER Circular 13/2014 *Management and Accountability for Grants from Exchequer Funds*, the HSE observed a poor level of compliance. The annual financial monitoring return will seek to ensure compliance with the requirements.
 - The return sets out the funding provided by the HSE under the service arrangement which in many cases was not readily available in an agency's annual financial statements. It provides a breakdown by CHO of both income and expenditure allowing reconciliation to HSE records.

- The return provides analysis of expenditure by the agency attributable to HSE funding which was previously not available.
- The return includes a number of statements of assurance in respect of financial and corporate governance controls.

19.87 Each CHO and hospital group with responsibility for service arrangements will have responsibility for the receipt and review of the annual financial monitoring return. The review of the 2016 returns will commence towards the end of 2017. As this is the first year the annual financial monitoring return has been introduced, a sample of returns will be reviewed by the HSE's compliance unit which will inform a review of the process which is planned after the first year of operation.

19.88 The establishment of contract management support units in each CHO will also provide for a more structured approach to the analysis and review processes.

Views of the Accounting Officer Department of Health

19.89 The legal framework under which the HSE provides grant funding to agencies is set out in the Health Act 2004. As Accounting Officer, I recognise the importance of ensuring that strong governance, accountability and control arrangements are in place in the HSE to ensure that all such monies are discharged appropriately and in accordance with the proper procedures.

19.90 In my letter of determination to the HSE, advising it of the maximum net non-capital expenditure that may be incurred, the obligations of the HSE under Circular 13/2013 *Public Spending Code*, Circular 13/2014 *Management and Accountability for Grants from Exchequer Funds*, and the *Code of Practice for the Governance of State Bodies* (2016), were emphasised. These requirements are of particular importance for the HSE as an organisation charged with such a large amount of public spending. The HSE must also address the requirement to comply with all obligations under these policies in the national service plan.

19.91 The HSE has a governance framework in place which incorporates national standardised documentation and guidance documents that enables the HSE to contractually underpin the grant-funding provided to all non-statutory service providers. This framework seeks to ensure the standard and consistent application of good governance principles, which are robust and effective, to ensure that both the HSE and the providers meet their respective obligations. It is reviewed and updated as required.

19.92 It is essential that the HSE continues to build on the management processes which the national standard governance documentation and operational procedures have established and to comply in full with audit and accounting requirements concerning the disbursement of these grants.

19.93 The HSE, similar to other agencies under the aegis of the Department, submitted a report on its compliance with the provisions of the *Code of Practice for the Governance of State Bodies* for 2016. This report acknowledged shortcomings in relation to the HSE's governance of grants to outside agencies. It also set out details of how the breaches in governance will be mitigated.

- 19.94** The report stresses that the findings and recommendations emerging from governance reviews, audits etc. will inform the HSE's annual review of its governance framework. The HSE is overseeing an external review of Section 38 agencies which should be completed by the end of 2017. The Department will continue to be updated on this review and continue to monitor progress on the HSE's actions in closing out breaches of compliance and in enhancing its oversight of the bodies which it funds.
- 19.95** The HSE submit annually to the Department a national service plan. The Department monitors monthly the HSE's performance in delivering this plan. In addition to the arrangements for the annual agreement of the national service plan, the HSE must submit a corporate plan covering a three year period. The latest corporate plan covers the period 2015-2017. It includes plans to strengthen areas of corporate governance.
- 19.96** The HSE corporate plan is reported upon by the HSE in its annual report which is submitted to the Minister and laid before each House of the Oireachtas. Furthermore, the annual report includes reference to the arrangements in place for maintaining and adhering to the HSE's code of governance.
- 19.97** I look forward to the strengthening of governance and accountability arrangements between the HSE and its service providers, taking into account in particular the findings of its external review of financial statements, its internal audit findings and the findings of this examination, in order that it and its service providers comply, as appropriate, with the requirements in the *Code of Practice for the Governance of State Bodies*.

Conclusions and recommendations

- 19.98** The Department of Health provides funding to the HSE in relation to grants for Section 38 and Section 39 agencies. In 2016, around 28% or €3.78 billion of the HSE's total annual Exchequer revenue allocation from the Department of Health related to funding provided to over 2,270 health agencies to provide a range of health and social care services on behalf of the HSE. This includes funding of €1.99 billion to sixteen acute hospitals and funding of €1.79 billion to voluntary and community groups. Given the level of expenditure and the number of agencies funded, it is important that the HSE has adequate oversight and monitoring arrangements in place.
- 19.99** The relationship between the HSE and these agencies has arisen from an historical pattern of provision whereby services and payments are for the most part negotiated rather than as the result of competitive procurement, and these arrangements have evolved over time.
- 19.100** Up until 2015, the approach to funding service providers was based on the provider's historic cost patterns. The HSE has undertaken a number of initiatives to transition towards a funding model based on benchmark prices and projected activity levels.
- It has introduced activity based funding in the acute sector in relation to about 70% of total funding of €1.99 billion to that sector. While transition arrangements are in place whereby hospitals receive some additional funding to allow them to adjust to the revised budgets, the HSE intends phasing out these transitional arrangements over a number of years. Thereafter funding to the acute sector will be fully based on the number and type of patients treated.
 - The HSE recognises that calculating unit cost per output is more difficult in the social care area. The HSE has recently completed analysis of the top five funded agencies in the disability sector. The work identified 12 performance indicators to be used in comparing the performance of service providers. The HSE plans to extend this performance assessment model to all providers in order to facilitate comparison of performance of alternative service providers using specified indicators including unit cost of service provided. The HSE stated that this analysis will support more effective and equitable pricing, resource allocation and the development of commissioning models.
- 19.101** The examination found that details in relation to the governance arrangements in individual entities was not always available in the CHO providing the funding. The HSE noted that while governance information is provided in relation to grantees receiving funding for the first time, for existing grantees
- in the signing of their service arrangements, providers confirm that they have appropriate structures and governance arrangements in place
 - the Chairperson's statement in grant aid agreements confirms matters of financial governance including confirmation regarding the utilisation of funding for the purpose agreed.
- 19.102** The results of the annual compliance statements, the external governance reviews, inspections by the Office of the Comptroller and Auditor General and the work of HSE Internal Audit point towards a number of governance issues arising across the sector in particular non compliance with procurement rules and regulations, non compliance with public sector pay policies and the absence of internal audit functions.

Recommendation 19.1

The HSE should satisfy itself that the service providers in receipt of funding have appropriate governance structures and procedures in place. The HSE's monitoring procedures should include an assessment of the effectiveness of those structures and procedures.

HSE Director General's response

Agreed. In advance of providing funding to service providers, the HSE have a number of procedures in place.

For new grantees the HSE governance framework provides for an application and negotiation process which includes details of the organisation's structure and governance arrangements details in the application form, supplementary support information form and a governance self-evaluation questionnaire.

For existing grantees, in the signing of their service arrangements, providers confirm that they have appropriate structures and governance arrangements in place i.e. providers are contractually committed.

The Chairperson's statement in grant aid agreements confirms matters of financial governance including confirmation regarding the utilisation of funding for the purpose agreed

The HSE has undertaken a number of initiatives in order to gain assurance in relation to the effectiveness of governance procedures in the agencies it provides funding to.

- The annual compliance statement process introduced in 2014 for Section 38 providers and expanded to larger Section 39 agencies in 2016 provides for annual self-certification by service providers regarding compliance with specific matters of governance.
- It is envisaged that the external reviews of governance of Section 38 providers which are currently underway will be part of a rolling review programme over a 5 year cycle.
- The annual financial monitoring return introduced in relation to accounting periods ending on 31 December 2016 provides assurances regarding key elements of financial governance.

The HSE has taken or is planning to take a number of actions to address emerging issues.

- It is proposed that a Contract Management Support Unit will be established in each of the nine Community Healthcare Organisations to assist service managers in managing and documenting all aspects of the relationship with Section 38 and 39 providers in accordance with the governance framework.
- The HSE will continue to review the format of service arrangement schedules, annual compliance statements, annual financial monitoring reports and Chairperson's statements and will amend or update these documents, as appropriate, to reflect any learning gleaned from the external reviews of governance.

19.103 The audit found that the identification of responsibilities for monitoring and oversight in the HSE was difficult where agencies were in receipt of funding for more than one service type and/or from more than one location in the HSE. Although outputs were specified adequately in all cases examined, the arrangements provided for monitoring of a large number of items and did not always specify who was responsible for providing the relevant information or what section of the HSE had responsibility for monitoring this information.

Recommendation 19.2

The HSE should review the format of the annual service arrangement in order to highlight the key performance indicators, the related monitoring arrangements and clearly specify the agency's and the HSE's responsibilities in this regard.

HSE Director General's response

Agreed. The part 2 service arrangements are reviewed on an annual basis. This review takes account of all audit and review recommendations and other updates for changes in legislation, regulations and quality standards. Updates are also made on recommendations arising from review groups in each division taking into consideration operational experience.

For 2018, the part 2 service arrangements are being updated to take account of this matter as follows

- all monitoring arrangements will be examined to ensure the information required is current and relevant
- the arrangements will clearly outline where in the HSE the returns should be to.

Additional information will be provided to CHOs and hospital groups setting out expectations for frequency of reporting requirements. The establishment of contracts management support units in the CHOs will assist service managers in managing and documenting all aspects of the relationship with Section 38 and 39 providers.

19.104 The annual service agreement sets out the funding to be provided and the key performance indicators, and the frequency of reporting and meeting. Although the HSE provides guidance on the appropriate levels and frequency of reporting by health agencies, the audit noted variations between and within CHOs in the frequency of reporting and the number of items to be reported for agencies receiving similar levels of funding.

19.105 It is important that the HSE sets and monitors appropriate key performance indicators for funded agencies in order to ensure the funding provided is used effectively and efficiently. The examination found that for over half of the 29 cases examined, key performance indicator returns were on file and almost three quarters of these were at the frequency specified in the service arrangement.

19.106 The receipt and review by the HSE of a service provider's audited financial statements potentially provides assurance that the funding the agency was allocated has been spent for the purposes intended. The audit found that for just under a quarter of service arrangements and grant aid agreements examined, required audited financial statements had not been provided to the funding CHO.

19.107 The audit further noted variation between CHOs in the review of the annual financial statements. One of the CHOs visited considered the extent to which the grant had been utilised by the service provider as part of their review of the providers annual financial statements; the other CHO did not.

Recommendation 19.3

The HSE should ensure that monitoring arrangements specified in the annual service arrangements are complied with. There is also a need for clarification of roles and responsibilities where an agency is receiving funding from more than one CHO.

HSE Director General's response

Agreed. There is an established process in place whereby key performance indicator data is submitted by service providers at agreed frequencies. In addition to this process, service managers who manage the contractual relationship with service providers will agree the frequency for the submission of the required documentation as per the service arrangement and may request other relevant data from providers, as required.

The HSE Compliance Unit has established an inspection/review capability in 2017 which will provide additional assurance that the relationship with Section 39 providers is being managed properly. These ongoing reviews will support and greatly enhance the governance and oversight process that is currently in place.