Appropriation Account 2012

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 2012 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 2012, including the amount that could be used as appropriations-in-aid of expenditure for the year.

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

Tony O'Brien
Accounting Officer
Health Service Executive

26 September 2013

Statement on Internal Financial Control

Statement on Enhancing Internal Controls

The controls assurance process of the HSE in 2012 was directed at enabling the Deputy CEO as Accounting Officer and the Board and Chairman of the HSE to deliver upon their requirement to satisfy themselves and represent to the Minister for Health and to the Oireachtas that there was appropriate effective control within the HSE. During 2012 a formal Review of the System of Internal Control in the HSE was completed by the Finance Directorate with input from the Quality and Patient Safety Directorate, the results of which have informed this Statement on Internal Financial Control. The review was carried out by finance and quality and risk managers with specific expertise in the areas of finance, audit, control, quality and risk. Annual reviews of the system of internal control use an established methodology which has been further developed in carrying out this review during 2012. The scope of the review in 2011 extended for the first time to clinical management in the HSE, who completed Controls Assurance Statements. The scope was further expanded in 2012 with the requirement of Clinical Directors to complete a self assessment review in the bilateral (one-to-one) interview sessions. The methodology of the 2012 review involved reference to:

- Status of the recommendations of the 2007 - 2011 Reports on the Review of the Effectiveness of the System of Internal Control;
- Controls Assurance Statements completed by all senior managers, administrative and clinical, from National Director Level to Grade VIII (or equivalent relevant) level. This had regard to the 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;
- Results and findings of formal structured bilateral interviews with a representative sample of approximately 110 managers and heads of service and their responses to an internal controls questionnaire (ICQ) completed during each interview;
- Internal Audit reports, 2012 audit programme;
- Audit Committee and Risk Committee Minutes/Reports;
- Reports and management letters of the Comptroller and Auditor General;
- The 2012 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 Board Committee Minutes;
- Steering Group/Working Group/Implementation Groups etc Minutes;
- External Reviews / Reports; There were three external reviews completed in 2012 and some ongoing into 2013 commissioned by the HSE or by the Department of Health to examine specific control environments within the HSE. The reviews include Long Stay income collection at HSE Residential Units (Crowleys DFK), Tax Risk Assessment (KPMG), Independent Review of Financial Performance Management System and Associated Processes of the HSE (Ogden) and Addressing weaknesses in financial management and cost containments in the Irish Health Service Executive (PA Consulting).
- Reports of the Committee of Public Accounts;
- Health Information and Quality Authority Reports ;
- Mental Health Commission Reports;
- Quality Patient Safety Audit Reports; and

Government policy, such as *Future Health - A Strategic Framework for Reform of the Health Service 2012–2015*, Programme for Government, etc.

Extension of the Controls Assurance Process

The Controls Assurance Process 2011 introduced a requirement that clinical managers at the equivalent of Grade VIII Managers and above would sign Controls Assurance Statements. A further element of the Controls Assurance Process, the Internal Controls Questionnaire (ICQ), was extended to include Clinical Directors for the first time in 2012. The ICQ is completed by a sample of senior managers during a formal bilateral (one-to-one) interview. This represents a significant integration of clinical and financial risk management to enable a comprehensive assurance process for the HSE Board. Full compliance by staff with the extended controls assurance process in 2012 has not been achieved. Of the 1,178 staff on the Integrated Services Directorate's Register, 1,011 (or 85%) have signed as of 11 March 2012. This compares to 69% compliance at the same date last year. While the percentage rate for overall compliance with the process has improved, there are still particular service areas where compliance has been low. The individual Registers identify the staff who have and have not signed a Controls Assurance Statement and the level of non-compliance, while improved, remains unacceptable. The absence of a signed Controls Assurance Statement attesting to the operation of controls in such a large number of cases gives rise to a concern that corporate risks may not be appropriately identified and addressed.

ICQ interviews were conducted with a representative sample of over 100 senior managers from across the services. The percentage rate for overall compliance with the process with the clinical managers was 6%. Steps are being taken by management to address this unacceptable level of compliance. A number of other Executive Clinical Directors and Clinical Directors have not signed and have advised that they wish to consult with the National Clinical Director prior to signing.

It was necessary to conclude the Controls Assurance process to enable the National Clinical Director to provide assurance to the CEO.

However each Regional Director of Operations was instructed to;

- Conclude the 2012 process to the maximum extent possible.
- Arrange training/ briefing sessions for clinical managers where this is required.
- Continue to engage with individual managers (clinical and other), who have not signed their statements, to ensure they sign.

Correspondence has also issued to the National Clinical Director requesting him to reiterate the nationally agreed position relating to the Controls Assurance Statements process to the Clinical Directors in the system.

The report of the Review of the System of Internal Control in the HSE was circulated to senior management in March 2013. 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 a relatively immature organisation, comprising an amalgamation of health bodies and their legacy systems. The roll out and subsequent extension in scope and depth of the annual controls assurance process in recent years has had the effect of increasing awareness and understanding of the control system throughout the organisation. The monitoring of progress with the implementation of the report's recommendations has improved focus on compliance by managers.

There have been breaches of the control environment of the HSE which are referenced in this statement. These breaches point to the need for continued emphasis on and development of the control environment and a focus on the need to drive a single organisation wide culture of compliance. In summary, notwithstanding control breaches which were identified and are being addressed by management as set out above, the control environment, control and risk management processes and assurance arrangements are improving but are still not totally effective. There are a number of areas where specific action is recommended to increase effectiveness and consolidate on the improvements which have been put in place since the previous report. Structured plans for the implementation of the recommendations of the Review

of the System of Internal Control in the Health Service Executive are prepared by management. The implementation of these recommendations by management will be monitored by the Audit Committee during the year and will be reassessed in the 2013 review of the system of internal controls.

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 expenditure incurred by the HSE are stringent in terms of accountability and transparency in order to fulfil our responsibility for funding amounting to €12.5 billion from the Exchequer in 2012. These duties are set out in the Health Act 2004 and in the Public Financial Procedures of the Department of Finance.

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 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 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 manipulated 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, the ageing of the system and the loss of key finance staff. Incremental development of the system continued in 2012 to consolidate shared services financial transaction processing and to implement a single processing point for the Nursing Home Support (Fair Deal) Scheme, using existing system licences. The solution is to invest in people and systems to meet the emerging needs of the health environment, building an integrated national ledger to support the emerging health structures and the development of a ‘close to report’ process that can deliver data within a week of month end.

The HSE is in discussions with the Department of Health on these proposals with a view to collectively agreeing an approach to systems development in the short to medium term.

The 2012 National Service Plan was adopted by the Board in December 2011 and approved by the Minister for Health on 13 January 2012 within the statutory timeframe. During 2012 monitoring and evaluation of performance and budgets against service plan objectives was carried out.

Effective Internal Financial Control

The following is a description of the key processes which are in place across the HSE to provide effective internal financial control:

Internal Control Systems

- 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 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.

- 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 CEO.
- The HSE's National Financial Regulations form an integral part of the system of internal 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 Finance circulars and public sector guidelines. Compliance with National Financial Regulations is mandatory throughout the organisation. The development and maintenance of the HSE's suite of National Financial Regulations is a dynamic and continuous 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.
- The HSE recognises the importance of 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 Directorate 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. The HSE's Quality and Patient Safety Directorate is focused on the development and implementation of safe quality healthcare. An integrated approach to risk management is utilised, incorporating both clinical and non-clinical risk. 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 Board 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. In 2012 implementation groups were established to oversee the implementation of recommendations from both internal and HIQA reports such as in regard to Tallaght and Galway Hospitals. The risk management processes in the HSE, while being developed, are still relatively immature. The full suite of HSE Risk Management policies, procedures and guidelines are published on www.hse.ie.
- The Quality and Patient Safety Directorate covers a wide range of programmes and projects, including promoting the role of clinical governance and developing clinical leadership, ensuring safe services, monitoring the Quality and Patient Safety performance of the system, integrated risk management and embedding national standards and HSE recommended practices. The directorate is building further capacity to support the development of the Patient Safety Authority through engagement with Department of Health and HIQA. The Quality and Patient Safety Directorate is also progressing widening the use of the Health Intelligence Ireland information system and National Quality Assurance Intelligence System (NQAIS) to help drive quality, safety, and efficiency of health services.
- A detailed standardised appraisal process is conducted for all capital projects budgeted in excess of €0.5 million. The process involves presenting a project brief to the National Director of Finance setting out service need in the context of capital priorities as expressed in the Corporate and Service Plans. A cost-benefit analysis of all proposed major capital projects is carried out. Those which are budgeted in excess of €30 million are subject to a detailed cost benefit analysis carried out in accordance with Department of Finance 2005 Guidelines for the Appraisal and Management of Capital Expenditure Proposals in the Public Sector as amended by the Value for Money circular of January 2006. Board reviews of the capital programme take place on a regular basis.
- The HSE has put in place procedures designed to ensure compliance with all pay and travel circulars issued by the Department of Finance. Any exceptions identified are

addressed and are reported on an annual basis to the Minister, in accordance with the Code of Practice for the Governance of State Bodies.

- The primary legal framework under which the HSE provides financial support to non-statutory service providers is set out in the Health Act 2004. To ensure the HSE and non-statutory sector are meeting their respective obligations, the HSE has developed a formalised national governance framework to manage the funding provided to the non-statutory sector. A cornerstone of this governance framework is the application of national standard governance documentation to all agencies funded to provide personal health and social services. This national standard governance documentation was developed with the agreement of all major service providers and has been in operation since 2009; following a consultation process with the relevant stakeholders it was reviewed in 2011 with newly updated documentation in use from 1 January 2012. Changes made include:
    - greater emphasis is being placed on collaboration between agencies and the HSE in relation to procurement; and
    - a clause has been inserted requiring the recruitment of all NCHDs (not filling approved training posts) to be carried out through the HSE National Recruitment Office/Public Appointments Service.
    - An extension of the Section 38 clause to ensure only salaries within public sector norms are paid has been made so as to include all funded agencies; and
    - A requirement to comply with the conditions of the 2010 Voluntary Early Retirement and Voluntary Redundancy schemes was also added for all agencies.
    - In addition the schedules to the Service Arrangement were also reworked, to include additional and detailed information of services, to enable the governance documentation to be a more comprehensive and useful framework for the totality of the service and funding relationship with each Agency.

  Additional changes were made to ensure the documentation reflected current legislation, regulation and government department directives. A number of editorial changes were, also, required to address such matters as changes in the HSE's organisational structure and job titles. The National Standard Suite of Documentation now also includes a Service Arrangement for use with "commercial / for profit" agencies providing health and personal social services, ensuring consistency of approach, in all of the non-statutory sector.

- A Register of Non-Statutory Agencies - Service Arrangements and Grant Aid Agreements, is in operation. This provides local, regional and national management information on 2,680 separate Agencies which operate 4,381 separate funding arrangements to a value of approximately €3.27 billion. This Register is managed by the National Business Support Unit (NBSU) and has created a unique identifier for each agency allowing the maintenance of key information on each separate funding arrangement which includes both current and historic funding, compliance with national standard governance documentation, and key contact details. This is available on the HSE intranet site as a reference guide for all HSE managers. From the first quarter of 2012, monthly performance monitoring statistics and reports were prepared. The figures for 2012 funding report a compliance rate of 93.69% of funding covered by completed governance documentation. All of the 16 Voluntary Hospitals had signed Service Arrangements in place for 2012. Organisations which did not complete the signing process for 2012 have been formally communicated with and the appropriate actions have been taken, resulting in some cases in the cessation of contracts. The HSE Management Team has ensured a continued focus on compliance with the governance framework and has included this as a key performance indicator for both corporate and regional reporting.

- A project to examine the strengthening of the overall management and governance framework, with specific emphasis on the appropriate management processes required at national, regional and local level for the HSE to effectively manage its relationship with the non-statutory sector and meet its accountability obligations, commenced in 2011 and will be facilitated with external consultancy in 2013. In the interim a wide range of guides and instruction have been developed and are available to assist budget holders in the effective

management of the relationship with funded agencies which is a critical responsibility for each budget holder.

- 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 National Director of Finance has authority to approve proposed property transactions up to a limit of €2 million exclusive of VAT, once recommended for approval by the Property Committee. Transactions in excess of this amount must be approved by the CEO, once recommended for approval by the Property Committee and endorsed by the National Director of Finance. Transactions in excess of €2 million once approved by the CEO must then be submitted to the HSE Board for final approval.
- As part of the HSE's annual review of the effectiveness of the system of internal controls, all staff at Grade VIII (or equivalent) level and above are required to complete a Controls Assurance Statement, attesting to the existence and operation of controls which are in place in their area of responsibility.

Performance Monitoring and Reporting

- Under Section 29 of the Health Act 2004, the HSE is required to prepare a formal 3 year plan, known as the HSE's Corporate Plan. The plan provides the overarching framework within which the organisation will address its priority areas, or key activities, over the three years and gives guidance on where we will focus the efforts of staff and the targeting of resources. The second HSE Corporate Plan covered the years 2008-2011 and set out what the HSE planned to achieve during that timeframe. A draft third plan for the period 2011-2014 was submitted to the Minister for Health on 9 September 2011 in accordance with the legislation and this is currently under consideration in the context of deliberations on proposed new governance and administrative structures and enhanced accountability arrangements for the HSE.
- A report on performance against the HSE Corporate Plan 2008-2011 is published on www.hse.ie.
- HealthStat information continued to be published on the web throughout 2012. The HealthStat forums ceased in May 2012 in advance of the setting up of the CompStat process. CompStat is a web-enabled operational performance management and reporting system which replaces HealthStat in 2013. It is based on a balanced accountability framework of Quality, Access and Resources, aligned with current health policy, and uses a scorecard report to track performance against a suite of relevant metrics.

  CompStat has a focus on Acute Hospitals from the perspective of inpatients, outpatients and day cases and a focus on Community Services, based on Local Health Office (LHO) areas, which is representative of all care groups. It presents information in an integrated report by hospital and local health office area. CompStat results will be published on www.hse.ie later in 2013.

  CompStat performance results are discussed at monthly CompStat Forum meetings, chaired by the Regional Directors of Operations, which engage with key people in the HSE Regions, Dublin Mid-Leinster, Dublin North East, South and West. These meetings hold managers accountable for their individual performance and provide an opportunity to share best practice and address problem areas in a positive way. The Forum also identifies performance issues that need a national approach.
- The Corporate Planning and Corporate Performance Directorate (CPCP) is responsible for the implementation of a comprehensive integrated cross system planning function, a business intelligence unit and operational performance reporting and measurement. The HSE has a comprehensive planning, performance monitoring and management framework. The HSE Performance Monitoring Control Committee, chaired by the National Director of Finance, continued in its role of reviewing and validating organisational performance in the key areas of finance, human resource (HR) management and the achievement of targets identified in the National Service Plan. CPCP provides key performance reports to the

Performance Monitoring Control Committee which provides a view of performance and support decisions on remedial action required to meet financial, HR and activity targets.

- The HSE Performance Report provides an integrated analysis of key financial, HR, acute and non-acute performance data and is published monthly on the HSE website, www.hse.ie . The activity data reported is based on the Performance Activity and Key Performance Indicators outlined in the National Service Plan. A Supplementary Report is also produced each month which provides more detailed data on the metrics covered in the Performance Report. Biannual Key Result Area reports are also prepared to show progress against specific actions, as set out in the National Service Plan.

- 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 SCA has a statutory duty to provide advice and assistance to the HSE under the various schemes. It collaborates with HSE risk management, clinical and administrative personnel to support patient safety and to help minimise the occurrence of claims. The SCA hosts an electronic national adverse events management reporting system which facilitates the identification of clusters of adverse incidents and allows for root cause analysis of claims. 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 2012. The SCA provides insurance advices 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.

- The HSE has an Internal Audit function with appropriately trained personnel which operates in accordance with a written charter/terms of reference which the Board has approved. 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 controls on a rolling basis over a reasonable period. The work of the Internal Audit function is reviewed by the Audit Committee, which reports to the Board. Procedures are in place to ensure that the reports of the Internal Audit function are followed up. The National Director of Internal Audit reports to the Board of the HSE through the Chairman of the Audit Committee and has a close working relationship with the CEO and is a member of the HSE management team. Any instances of fraud or other irregularities identified through management review or audit are addressed by management and where appropriate An Garda Síochána are notified. Work is ongoing to increase the resources of the Internal Audit Directorate, which are presently insufficient, and to complete an agreed new overall structure.

- An Audit Committee with an independent chair, comprising three Board members and one independent member was in place during 2012. The Chairman of the Audit Committee is not a member of the HSE Board but reports to the Board on all significant issues considered by the Committee. The Committee operates under agreed Terms of Reference and met on six occasions in 2012. The National Director of Finance and the National Director of Internal Audit attend meetings of the Committee, while the CEO and other members of the executive management team attend when necessary. The external auditors attend as required and have direct access to the Committee Chairman at all times. In accordance with best practice, the Committee met with the National Director of Internal Audit and with the external auditors in the absence of management.

- A Risk Committee with an independent chair, comprising four Board members, one independent member and three members of HSE senior management was in place. The Chairman of the Risk Committee is not a member of the HSE Board but reports to the Board on all significant issues considered by the Committee. The Risk Committee operates

under agreed Terms of Reference and focuses principally on assisting the Board in fulfilling its duties by providing an independent and objective review of non-financial risks. The Committee also considered internal audit reports concerning the effectiveness of non-financial internal controls and HIQA reports including the implementation of HIQA recommendations. The Committee met on five occasions in 2012. Full liaison between the Audit and Risk Committees of the Board is essential to the proper functioning of these two inter-related Board committees. Liaison is facilitated by joint meetings of the two committees and ongoing engagement between the two committee chairs.

- A Remuneration and Organisation Committee was in place, chaired by the Chairman of the Board, and comprising the D/CEO and two other Board members and met on one occasion in 2012. The Remuneration and Organisation Committee operates under agreed terms of reference and is responsible for making recommendations to the Board on remuneration and organisational matters in the HSE.

- Monitoring and review of the effectiveness of the system of internal financial control is informed by the work of the Internal Audit function, the Audit Committee and the Managers in the HSE with responsibility for the development and maintenance of the management control framework. 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 of the utmost importance and monitoring and review of their implementation is overseen by the Audit Committee.

Significant Breaches of the Control System in 2012

A Revenue audit concluded in 2012 found underpayment of PRSI, giving rise to a settlement with Revenue totalling €54,000. Where areas of non-compliance are detected, either in the course of Revenue audit or arising from self review exercises, immediate steps are taken to settle the liability with Revenue and ensure that the necessary action is taken to eliminate the scope for such errors. In conjunction with the co-operative compliance programme in place with Revenue, the HSE completed a full scope Tax Risk Assessment with specialist tax assistance during 2012 across all the tax heads for which it must account. The Tax Risk Assessment documents key tax risk areas within the HSE. In addition to identifying specific areas of non-compliance, or potential non-compliance, the report comments on the tax related processes and controls applied by the HSE in the 2011 tax year. A comprehensive self review programme is being undertaken in 2013 of the various areas of tax risk identified with priority being given to those areas regarded as being high risk. Any underpayment of tax identified in the self review will be disclosed to the Revenue Commissioners. The HSE has obtained specialist tax advice which indicated that any liability which might arise would not be expected to be material in the context of the HSE's overall annual tax liability. The establishment of an in-house specialist tax function for the HSE is a priority for 2013. The HSE is committed to exemplary compliance with taxation laws.

During 2012 management reported an alleged fraud involving accounts payable processing at a hospital in Cork. The matter was reported to the Gardaí and investigated by Internal Audit with support from an external specialist forensic audit resource. Electronic funds transfer payments of approximately €55,000 had been made to a bank account of a member of staff for bogus invoices in addition to items to the value of €8,000 which were purchased by the staff member for his personal use. A number of additional payments totalling €107,000 were also set up on the system but were detected by the Finance Department before payment could be effected. A criminal prosecution resulted and the matter was before the courts in 2013 when the HSE staff member pleaded guilty to 11 charges relating to the fraud. An Internal Audit report highlighting the control weaknesses which enabled the fraud to occur was also completed. This report incorporates recommendations to improve controls and so reduce the risk of any future irregularity in this area.

An audit carried out in HSE West has highlighted an unapproved capital project of approximately €1.5m which was funded from revenue expenditure. The upgrade of the East Galway Mental Health Services facility at Toghermore resulted in an overspend of

approximately €2m on an approved local budget of €4.6m (43%) for the centre in 2011. This has resulted in value for money exposure and reputational risk for the HSE. The circumvention of capital expenditure protocols has also raised concern over the building's compliance with statutory and building regulations which are designed to meet existing fire / health and safety legislation.

Under new arrangements introduced in 2012, Accounting Officers are required, in the Statement on Internal Financial Control, to attest to compliance with all relevant guidelines in relation to procurement during the relevant financial year. The procurement guidelines require submission to the Comptroller and Auditor General of an annual return which discloses details of any contracts in excess of €25,000 (exclusive of VAT) which have been awarded without a competitive process. This return, called the 40/02 return is signed by the Accounting Officer and was due to be submitted by 31 March 2013 in relation to the financial year 2012.

The HSE does not have an automated centralised system to maintain a register of contracts awarded without a competitive procurement process and as a result has experienced delays in submitting the 40/02 return. In addition, the audit in 2012 and in recent years has identified a significant number of contracts awarded without a competitive process that should have been identified for inclusion on the 40/02 return but were not.

In order to address the weaknesses identified, the HSE has assigned responsibility for collating the required information to a designated Assistant National Director of Procurement. In addition, control assurance statements signed by individual managers (which feed into the overall Statement on Internal Financial Control) will from 2013 onwards require a declaration that managers have complied with procurement guidelines.

Formal Reviews in the Year

The scale of costs within the Primary Care and Medical Cards Schemes and the volume of transactions associated with them means that there are potential areas of risk that need to be managed. Medical card application processing was centralised in 2011, and revealed a significant degree of variability in the granting of medical cards when processing was devolved. In 2012 the HSE commissioned two external reviews into the processing and expenditure on medical cards in the Primary Care Reimbursement Service (PCRS). The first review completed in April 2012 focused on developing proposals for the streamlining and improvement of processes and customer service. The second review completed in October 2012 sought to identify the cost drivers in relation to PCRS expenditure and evaluate the risk areas and associated controls. The action plan for implementation of the recommendations of both reports was progressed throughout 2012. Some of the changes introduced during 2012 and planned for 2013 are outlined below.

In addition to the normal three-yearly review of eligibility on expiration of a medical card, targeted reviews of eligibility were introduced during 2012, in relation to medical cards which had been inactive for more than 12 months. In such cases, medical card holders were formally contacted to confirm that they were still resident in the State. In cases where no response was received, eligibility was removed.

Legislation which came into effect in March 2013 allows the sharing of data between the Revenue Commissioners, the Department of Social Protection and the HSE. The availability to the HSE of data indicating changes in a medical card holder's circumstances, such as change in employment status, income levels and change in eligibility for Department of Social Protection schemes, will inform the focus of targeted interventions in 2013.

The introduction of these additional controls will strengthen the risk management framework for schemes and in doing so, will reduce risk and exposure to excess payments for card holders who are no longer eligible.

In 2013, the HSE also commenced the review of eligibility in relation to a random sample of medical card holders. Analysis of the results of these reviews will allow the HSE to estimate the level of ineligibility in the medical card system, provide an indicator of how well the control and review systems are working and identify changes in procedures necessary to combat any new risks emerging or deficiencies in its systems.

In June/July 2012, a Review of Financial Management Systems (FMS) in the health service was undertaken by a project team led by an international expert. The overall intention of the project was to review the present state of the financial management system in place in the health sector in the context of the serious overruns which were projected to occur in 2012, the continuation of a challenging financial environment for the foreseeable future, and the radical reforms envisaged in the Programme for Government. The FMS review was completed in July 2012 and numerous recommendations were made across a number of areas including financial management capacity, the process of managing surpluses and deficits, accountability arrangements, the role of the regions and risk management. A wide ranging review of financial management and cost containment systems in the health service has commenced since the FMS review was completed. This second review, which was finalised during Q4 2012, included the preparation of an action plan for the implementation of the FMS review. It also included an analysis of existing cost containment plans, an assessment of various options for achieving cash savings and recommendations for strengthening the financial management infrastructure within the Irish health service.

Tony O'Brien
Accounting Officer
Health Service Executive

26 September 2013

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 2012 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, 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 in his Department and for the regularity and propriety of all transactions in the appropriation accounts.

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 a report each year, on any matters that arise from the audits of the appropriation accounts.

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 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 2012.

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.

Reporting on matters arising from audit

Chapter 21 of my report on the accounts of the public services for 2012 relates to budget management in the health sector. Chapter 22 relates to medical card eligibility.

Compliance with Procurement Guidelines

I also draw attention to the Statement on Internal Financial Control and the section therein which sets out material instances of non-compliance with public procurement guidelines and provides details of the proposed actions to address these weaknesses.

Seamus McCarthy
Comptroller and Auditor General

27 September 2013

Statement of Accounting Policies and Principles

The standard accounting policies and principles for the production of appropriation accounts 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 1.1 to 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 B.12 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 percentage 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 different care groups.

Expenditure on Children and Family Service

The 2012 Estimate of the HSE included a new subhead B.15 (Children and Family Services). The vote outturn for Subhead B.15 was derived from the income and expenditure systems operated by the HSE by identifying cost centres and legal expenses relevant to the Children and Family Service.

Other Apportionments

In addition to Subhead B.12 and B.15, certain expenditure currently administered centrally (e.g. national contracts paid by HSE Corporate) is apportioned to area-based subheads on an estimated basis in line with how the Revised Estimates Volume allocation was calculated.

Appropriations-in-Aid

In 2012, the Department of Health and the private health insurance companies negotiated legal agreements whereby the private insurance companies advanced funds in respect of patients treated but not yet invoiced by nominated HSE and voluntary hospitals. A total of €104 million was received in December 2012 arising from these agreements, of which €49.8 million was received by HSE statutory hospitals. The insurance companies have reduced payments due to be made to the statutory (and voluntary) hospitals in early 2013 to take account of the advances made by them in 2012 i.e. any claims that relate to 2011 or 2012 discharges will not be paid until the advance is fully recouped. The outturn for Subhead D.6 (Note 4.1) includes the €49.8 million advance received on the basis of advice received from the Department of Public Expenditure and Reform which indicates that such receipts are classifiable as costs recovered.

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 are included in the opening balance sheet on establishment day, 1 January 2005, at their original cost/valuation. The related aggregate depreciation account balance was also included in the opening balance sheet. The HSE has not adopted a policy of revaluation.

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 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 sales less costs to be incurred in the sale of stock.

Matured Liabilities

Matured liabilities are invoices paid in January 2013 which fell due for payment before 31 December 2012.

Vote 39 Health Service Executive

Appropriation Account 2012

Service		Estimate provision		2012 Outturn	2011 Outturn
		€000	€000	€000	€000
Administration					
A.1	Salaries, wages and allowances and other administration expenses of Corporate HSE		62,377	64,819	64,088
A.2	Value for money and policy reviews		389	389	389
A.3	Pension lump sum payments				
	Original	207,000			
	Supplementary	(8,000)	199,000	175,494	—[1]
HSE Regions and Other Health Agencies					
B.1	HSE-Dublin Mid Leinster Region				
	Original	1,346,415			
	Supplementary	20,000	1,366,415	1,372,716	1,480,275
B.2	HSE-Dublin North East Region				
	Original	1,225,344			
	Supplementary	25,000	1,250,344	1,251,037	1,374,969
B.3	HSE-South Region				
	Original	1,912,930			
	Supplementary	31,000	1,943,930	1,946,459	2,046,367
B.4	HSE-West Region				
	Original	2,103,412			
	Supplementary	45,000	2,148,412	2,164,462	2,466,424
B.5	Grants in respect of certain other health bodies including voluntary and joint board hospitals				
	Original	2,126,724			
	Supplementary	41,000	2,167,724	2,158,954	2,240,038

[1] In 2011, the cost of these pension lump sum payments was included in subheads B.1 to B.4.

Service			2012		2011
			Estimate provision	Outturn	Outturn
			€000	€000	€000
Other services					
B.6	HSE - medical card services and other community schemes				
		Original 2,518,293			
		Supplementary 234,000	2,752,293	2,756,613	2,583,029
B.7	Health agencies and other similar organisations (part funded by National Lottery)		7,513	4,105	3,623
B.8	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		14,458	14,214	14,461
B.9	Economic and Social Disadvantaged and Disability (Dormant Accounts funded)		—	—	1,242
B.10	Payment to a special account established under Section 13 of the Health (Repayment Scheme) Act 2006		1,700	1,700	10,500
B.11	Payment to a special account established under Section 4 of the Hepatitis C Compensation Tribunal (Amendment) Act 2006 – Insurance Scheme		1,500	700	1,310
B.12	Long term residential care		994,700	962,608	1,055,429
B.13	Service developments and innovative service delivery projects				
		Original 63,000			
		Supplementary (20,000)	43,000	41,500	60,810
B.14	Payments to the State Claims Agency				
		Original 96,000			
		Supplementary (20,000)	76,000	75,668	81,204
B.15	Children and family services		551,674	569,834	—[1]

[1] The costs for children and family services were previously reflected in the regional expenditure (subheads B.1 to B.4).

Service			2012		2011
			Estimate provision	Outturn	Outturn
			€000	€000	€000
Capital Services					
C.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				
	Original	330,487			
	Supplementary	(10,000)	320,487	308,117	298,397
C.2	Building, equipping and furnishing of health facilities (part funded by National Lottery)		2,539	2,539	2,539
C.3	Information systems and related services for health agencies				
	Original	140,000			
	Supplementary	(18,000)	122,000	107,516	101,545
C.4	Building and equipping mental health and other health facilities (funded from the disposal of surplus assets)		8,000	8,000	16,191
	Gross expenditure				
	Original	13,714,455			
	Supplementary	320,000			
			14,034,455	**13,987,444**	**13,902,830**
	Deduct				
D	**Appropriations in aid**				
	Original	1,553,522			
	Supplementary	(40,000)			
			1,513,522	**1,489,345**	**1,458,171**
	Net expenditure				
	Original	12,160,933			
	Supplementary	360,000			
			12,520,933	**12,498,099**	**12,444,659**

Surplus for surrender

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

	2012	2011
	€	€
Surplus to be surrendered	22,833,999	15,780,712

Notes to the Appropriation Account

1 Operating Cost Statement 2012

		2012	2011
	€000	€000	€000
Expenditure on HSE corporate administration		65,208	64,477
Expenditure on services and programmes		13,922,236	13,838,353
Gross expenditure		**13,987,444**	**13,902,830**
Deduct			
Appropriations-in-aid		**1,489,345**	**1,458,171**
Net expenditure		**12,498,099**	**12,444,659**
Changes in capital assets			
Purchases cash	(145,670)		
Depreciation	178,853		
Land transfers/disposals	307,727		
Disposals cash	5,135		
Loss/(gain) on disposals	383		
		346,428	391
Changes in net current assets			
Decrease in closing accruals	97,015		
Decrease in stock	3,256		
		100,271	(133,029)
Direct expenditure		**12,944,798**	**12,312,021**

1.1 Reconciliation of operating cost to expenditure recognised in the Annual Financial Statements

	2012 €000	2011 €000
Operating cost	12,944,798	12,312,021
Expenditure met from other income	1,523,340	1,587,385
Capital expenditure charged to income and expenditure account	145,670	176,129
Depreciation	(178,853)	(170,690)
Land transfers/ disposals	(307,727)	—
Disposals cash	(5,135)	—
(Loss) / gain on disposals	(383)	1,027
Expenditure per income and expenditure account	**14,121,710**	**13,905,872**
Revenue expenditure per revenue income and expenditure account	13,814,264	13,588,194
Capital expenditure per capital income and expenditure account	307,446	317,678
Expenditure per income and expenditure account	**14,121,710**	**13,905,872**

Analysed as follows

Revenue pay and pensions	**2012 €000**	**2011 €000**
Clinical	2,825,541	2,891,917
Non-clinical	910,032	937,604
Other client/patient services	631,832	655,083
Superannuation	656,375	567,184
Sub-total pay and pensions	**5,023,780**	**5,051,788**
Revenue non-pay		
Clinical	836,019	829,711
Patient transport and ambulance services	55,601	56,033
Primary care and medical card schemes	3,062,261	2,831,471
Other client/patient services	65,729	65,357
Grants to outside agencies	3,464,212	3,449,704
Housekeeping	227,362	227,815
Office and administrative expenses	386,723	378,441
Long stay charges repaid to patients	1,149	9,397
Hepatitis C insurance scheme	911	980
Other operating expenses	44,808	45,679
Clinical indemnity scheme payments	75,668	81,204
Nursing home support scheme (Fair Deal)	570,041	560,614
Sub-total non pay	**8,790,484**	**8,536,406**
Capital expenditure		
Capital expenditure		
Capital grants to outside agencies	98,357	132,755
Capital expenditure on HSE projects	209,089	184,923
Sub-total capital	**307,446**	**317,678**
Total expenditure per income and expenditure accounts	**14,121,710**	**13,905,872**

2 Balance Sheet as at 31 December 2012

	Note	2012 €000	2011 €000
Capital assets	2.3	4,919,766	5,266,194
Financial assets		3	3
		4,919,769	**5,266,197**
Current assets			
Bank and cash	2.4	128,552	131,863
Stocks	2.5	118,265	121,521
Debtors and prepayments	2.6	165,375	229,792
Cash advance to Adelaide and Meath Hospital	2.6	—	23,760
Other debit balances	2.7	54,629	55,788
Total current assets		**466,821**	**562,724**
Less current liabilities			
Creditors		149,468	150,448
Accrued expenses		1,259,305	1,250,602
Deferred income		9,755	9,634
Other credit balances	2.8	165,823	171,919
Net liability to the Exchequer	2.9	17,359	15,731
Total current liabilities		**1,601,710**	**1,598,334**
Net current assets		**(1,134,889)**	**(1,035,610)**
Net assets		**3,784,880**	**4,230,587**
Represented by:			
State funding account	2.1	**3,784,880**	**4,230,587**

2.1 State Funding Account

	Note	2012 €000	2011 €000
Balance at 1 January		4,230,587	4,112,505
Funding drawn down	2.2	12,498,099	12,444,659
Non cash expenditure – notional rent		992	(14,556)
Total operating cost	1	(12,944,798)	(12,312,021)
Balance at 31 December		**3,784,880**	**4,230,587**

2.2 Funding drawn down

	Note	2012 €000	2011 €000
Disbursements from the Vote			
Estimate provision	Account	12,520,933	12,460,440
Surplus to be surrendered	Account	(22,834)	(15,781)
Total funding drawn down		**12,498,099**	**12,444,659**

2.3 Capital Assets

	Land	Buildings	Work in progress	Equipment	Motor vehicles	Total
	€000	€000	€000	€000	€000	€000
Gross assets						
Cost or valuation at 1 January 2012	2,021,833	3,468,614	253,873	1,187,195	90,958	7,022,473
Additions	82	35,491	70,763	35,753	3,581	145,670
Transfers (from work in progress)	—	88,928	(98,417)	9,264	225	—
Transfers/ disposals	(307,727)	(4,891)	(1,342)	(14,206)	(2,782)	(330,948)
Cost or valuation at 31 December 2012	1,714,188	3,588,142	224,877	1,218,006	91,982	6,837,195
Accumulated depreciation						
Opening balance at 1 January 2012	—	773,999	—	904,599	77,681	1,756,279
Depreciation for the year	—	90,148	—	81,758	6,947	178,853
Depreciation on transfers/disposals	—	(1,597)	—	(13,364)	(2,742)	(17,703)
Cumulative depreciation at 31 December 2012	—	862,550	—	972,993	81,886	1,917,429
Net assets at 31 December 2012	**1,714,188**	**2,725,592**	**224,877**	**245,013**	**10,096**	**4,919,766**
Net assets at 31 December 2011	**2,021,833**	**2,694,615**	**253,873**	**282,596**	**13,277**	**5,266,194**

2.4 Bank and Cash

at 31 December	2012	2011
	€000	€000
Officers imprest/petty cash balances	630	652
Commercial bank account balances	29,680	27,698
PMG balance	98,242	103,513
	128,552	131,863

2.5 Stocks

at 31 December	2012 €000	2011 €000
Medical, dental and surgical supplies	33,156	32,610
Laboratory supplies	6,260	6,193
Pharmacy supplies	16,873	17,974
High tech pharmacy stocks	32,603	32,403
Pharmacy dispensing stocks	1,306	1,716
Blood and blood products	1,421	1,300
Vaccine stocks	15,984	17,601
Household services	8,010	8,881
Stationery and office supplies	2,063	2,275
Sundries	589	568
	118,265	121,521

The HSE wrote off stock amounting to €0.7 million in 2012.

2.6 Debtors and Prepayments

at 31 December	2012 €000	2011 €000
Patient debtors – private facilities in public hospitals[1]	53,283	96,806
Patient debtors – public inpatient charges	12,530	12,950
Patient debtors – long stay charges	8,450	7,937
Prepayments and accrued income	20,037	17,330
Pharmaceutical manufacturers	27,674	52,788
Pension levy deductions from staff / service providers	11,314	8,875
Statutory redundancy claim	9,844	11,660
Voluntary hospitals – national medical device service contracts	8,425	4,531
Sundry debtors	13,818	16,915
	165,375	229,792
Cash advance to Adelaide and Meath(Tallaght) Hospital[2]	—	23,760

[1] The reduction in the patient debtors is largely due to accelerated payments totalling €49.8 million from the three main health insurance companies received in December 2012. These accelerated payments are based on insurer estimates of private patients who have incurred charges for treatments in acute hospitals but where the claims process had not been finalised.

[2] The €24 million balance owed by AMNCH (Tallaght Hospital) at 31 December 2011 was written off in 2012 through an additional once off grant allocation.

Debt Write-Offs and Provisions

During 2012, the HSE wrote off bad debts amounting to €10.6 million (2011: €12.1 million) and increased the provision for bad debts by €1.9 million (2011: €1.5 million) as follows:

	Debts written off		Movement in provision	
	2012	**2011**	**2012**	**2011**
	€m	**€m**	**€m**	**€m**
Private charges	4.9	4.7	2.3	4.3
In-patient charges	2.2	2.1	1.5	(0.2)
Emergency department charges	2.7	2.2	(0.5)	(0.8)
Road traffic accidents	2.0	2.0	(3.7)	(3.3)
Long-stay	0.2	0.3	1.7	1.4
Non-patient related debts	(1.4)	0.8	0.6	0.1
Total	**10.6**	**12.1**	**1.9**	**1.5**

2.7 Other Debit Balances

at 31 December	**2012**	**2011**
	€000	**€000**
Payroll overpayments	4,478	4,441
Advances to pharmacists	231	470
Secondments	3,664	2,902
Payroll technical adjustment[1]	31,593	33,720
National Treatment Purchase Fund / Special Delivery Unit	3,602	1,565
Local authorities	3,241	4,582
Other debtors suspense	7,820	8,108
	54,629	55,788

[1] Payroll technical adjustments relate to payments made to staff arising from payroll rationalisation. The payments are repayable by staff involved.

2.8 Other Credit Balances

at 31 December	**2012**	**2011**
	€000	**€000**
Amounts due to the State		
Income Tax	59,402	70,838
Pay Related Social Insurance	36,570	43,081
Professional Services Withholding Tax	18,412	19,671
Value Added Tax	6,412	4,600
Due to the State	120,796	138,190
Payroll deductions and other credit balances	17,877	18,500
Special income and expenditure balances	27,150	15,229
	165,823	171,919

2.9 Net Liability to the Exchequer

at 31 December	2012 €000	2011 €000
Surplus to be surrendered	22,834	15,781
Exchequer grant undrawn	(5,475)	(50)
Net liability to the Exchequer	17,359	15,731
Represented by:		
Debtors		
Bank and cash	128,553	131,862
Other debit balances	54,629	55,788
	183,182	187,650
Creditors		
Due to State	(120,796)	(138,190)
Special income and expenditure balances	(27,150)	(15,229)
Payroll deductions and other balances	(17,877)	(18,500)
	(165,823)	(171,919)
	17,359	15,731

2.10 Commitments

at 31 December	2012 €000	2011 €000
Global Commitments		
Commitments likely to arise in subsequent years for:		
Procurement subheads	280,397	205,204
Operating leases	40,546	38,012
Grant subheads	37,048	37,993

Legally Enforceable Capital Commitments	**Cumulative spend to 31 December 2012**	**To be paid in subsequent years**	**Total**
Hospital Services	**€m**	**€m**	**€m**
Mater Campus Development	200.98	20.88	221.86
Mid West Regional Hospital - Critical Care Block	31.57	6.03	37.60
Mid West Regional Hospital – Emergency Department	0.40	7.00	7.40
Ennis General Hospital - Phase 1	7.68	0.25	7.93
Letterkenny General Hospital - Medical Ward Block	21.96	0.50	22.46
Cork University Hospital - Cardiac Renal	65.57	1.62	67.19
National Paediatric Hospital Development Board	36.35	1.24	37.59
St. Vincent's University Hospital	27.16	1.14	28.30
National Integrated Medical Imaging System (NIMIS)	23.08	9.63	32.71
Waterford Regional Hospital	12.67	1.36	14.03
Wexford General Hospital New Delivery Suite and Obstetrics Theatre	3.30	12.68	15.98

	Cumulative spend to 31 December 2012	To be paid in subsequent years	Total
	€m	€m	€m
St Lukes Hospital Phase 1 of the redevelopment	2.40	12.29	14.69
National Ambulance Control Centre	3.96	3.96	7.92
Our Lady of Lourdes Hospital, Drogheda – Extension and Refurbishment of Accident and Emergency	30.85	0.36	31.21
Total	**467.93**	**78.94**	**546.87**
Community Services			
Cashel, Phase 2	13.16	0.01	13.17
Clonmel Mental Health Unit	7.34	0.25	7.59
Grangegorman Development	21.59	0.78	22.37
Community Health Unit, Navan	11.98	0.25	12.23
Cork University Hospital – Provision of a replacement Acute Mental Health Unit to facilitate the development of a Radiation Oncology Facility on the campus	0.06	13.64	13.70
The provision of 44 Bed Acute Psychiatric Facility Beaumont Hospital	8.90	3.22	12.12
Our Lady of Lourdes Hospital - The provision of a new Acute MH Unit, within the Lourdes Healthcare campus	0.18	11.06	11.24
Kenmare - Kenmare Community Hospital Replacement	5.60	2.20	7.80
Cherry Orchard	8.73	0.66	9.39
Mental Health Services and Primary Care Centre – Ballyfermot	12.75	0.40	13.15
Inchicore Primary Care Centre	21.40	0.08	21.48
St. Mary's Hospital, Mullingar – Community Nursing Unit	16.77	0.50	17.27
St Anne's Child and Adolescent Psychiatric Unit	7.55	0.08	7.63
Total	**136.01**	**33.13**	**169.14**

2.11 Matured Liabilities

The total amount of matured liabilities undischarged at 31 December 2012 was €19.7 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
Pension lump sum payments (A.3)	23,506	The Minister for Finance signed the Public Service Pension Rights Order 2011 (S.I. No. 80 of 2011) on 23 February 2011. This specified 29 February 2012 as the end-date for the so-called 'grace period' within which pensions were unaffected by the pay cuts introduced in the Financial Emergency Measures in the Public Interest (No.2) Act 2009 (FEMPI (No2) Act 2009). Pension lump sums totalling €175.5 million were paid in respect of 3,372 people (2,866 WTE). The average amount was €52,000. Expenditure was less than projected as the estimate was based on 5,294 people (4,500 WTE).
Health agencies and other similar organisations (part funded by National Lottery)(B.7)	3,408	National Lottery grants are not paid until the conditions of the grant are fulfilled. Approved grants unpaid at the 31 December 2012 amounted to €1 million.
Information systems and related services for health agencies (C.3)	14,484	The saving predominantly relates to Revenue ICT expenditure which is charged to Subhead C.3 and was less than estimated. Expenditure on Revenue ICT has been reduced from €98 million in 2010 to €86 million in 2012.

4 Receipts

4.1 Appropriations-in-aid

			2012		2011
			Estimated	Realised	Realised
		€000	€000	€000	€000
1.	Receipts from health contributions		—	—	—
2.	Recovery of cost of health services provided under regulations of the European Community		220,000	220,000	270,000
3.	Receipts from certain excise duties on tobacco products		167,605	167,605	167,605
4.	Recoupment of certain Ophthalmic Services Scheme costs from the Social Insurance Fund				
	Original	5,000			
	Supplementary	(3,000)	2,000	—	1,300
5.	Recoupment of certain Dental Treatment Services Scheme costs from the Social Insurance Fund				
	Original	8,000			
	Supplementary	(6,000)	2,000	—	1,300
6.	Statutory charges in public hospitals, long-stay charges and charges for maintenance in private and semi-private accommodation in public hospitals[1]				
	Original	455,016			
	Supplementary	(38,000)	417,016	408,835	331,501
7.	Economic and social disadvantaged and disability (Dormant Accounts Funded)		—	—	1,242
8.	Superannuation		199,986	195,611	197,874
9.	Miscellaneous receipts		127,759	103,511	119,694
10.	Receipts from the disposal of mental health and other health facilities.		8,000	4,479	6,812
11.	PCRS rebate receipts				
	Original	25,000			
	Supplementary	7,000	32,000	37,316	—
12.	Receipts from pension-related deduction on public service remuneration		337,156	351,988	360,843
	Total				
	Original	1,553,522			
	Supplementary	(40,000)			
			1,513,522	**1,489,345**	**1,458,171**

[1] The increase in statutory charge receipts is largely due to accelerated payments totalling €49.8 million from the three main insurance companies received in December 2012. These accelerated payments were based on insurer estimates of private patients who have incurred charges for treatments in acute hospitals but where the claims process had not been finalised.

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
Recoupment of certain Ophthalmic Services Scheme costs from the Social Insurance Fund	2,000	The detailed statistical analysis required to calculate the payment to the HSE was not finalised in time for payment in 2012. €2.2 million was received in 2013 in respect of services provided in 2012.
Recoupment of certain Dental Treatment Services Scheme costs from the Social Insurance Fund	2,000	The detailed statistical analysis required to calculate the payment to the HSE was not finalised in time for payment in 2012. €4.4 million was received in 2013 in respect of services provided in 2012.
Miscellaneous receipts	24,248	The Estimate provision includes variable and once off receipts which did not materialise in 2012.
Receipts from the disposal of mental health and other health facilities.	3,521	The HSE's strategy is to fund its Mental Health Infrastructure Programme from the sale of lands. Surplus properties are identified and sold if the bid price meets or exceeds the market value.
PCRS rebate receipts	(5,316)	Pharmaceutical manufacturers rebate receipts were more than anticipated.

4.2 Reconciliation of Annual Financial Statement's Income to Appropriations-in-aid

			2012
	Revenue	**Capital**	**Total**
	€000	**€000**	**€000**
Total per annual financial statements	13,679,134	342,305	14,021,439
Less Exchequer grants	(12,161,428)	(336,671)	(12,498,099)
Total other income per annual financial statements	**1,517,706**	**5,634**	**1,523,340**
Less income credited to suspense			
Department of Health			(22,122)
Department of Children and Youth Affairs			(1,215)
Health Research Board			(1,029)
Other State sources			(5,147)
Agency services			(7,928)
Other payroll deductions			(8,704)
NTPF receipts / non cash receipts			(14,151)
Capital receipts from other State sources			(593)
Less movements in working capital			
Difference between patient cash receipts and maintenance income			30,119
Movement in other non-Vote debtors			(3,225)
Appropriations-in-aid			**1,489,345**

5 Employee Numbers and Pay

Whole Time Equivalents	**2012**	**2011**
HSE employees	65,597	67,722
Voluntary sector employees	35,909	36,670
Directly employed home helps	3,746	4,397
Total employees	**105,252**	**108,789**

Summary analysis of pay and pension costs	**2012**	**2011**
	€000	**€000**
Basic pay	3,283,355	3,374,110
Allowances	119,371	122,392
Overtime	157,164	169,857
Night duty	70,711	74,181
Weekends	176,355	182,372
On-call	55,190	49,873
Arrears	17,992	15,430
Employer's PRSI	322,472	319,819
Superannuation	656,375	567,184
HSE pay	**4,858,985**	**4,875,218**
Agency pay	164,795	176,570
Total pay	**5,023,780**	**5,051,788**

5.1 Allowances and Overtime Payments[1]

	Number of recipients[2]	**Recipients of €10,000 or more**	**Maximum individual payment[3] 2012 €**	**Maximum individual payment 2011 €**
Allowances	36,110	1,233	129,361	143,238
Overtime	21,049	4,642	167,288	153,250
Night duty	32,952	171	17,389	20,025
Weekends	49,667	613	18,119	16,819
On-call	7,259	1,409	85,906	110,624
Other[4]	10,758	140	92,482	89,770

[1] Payments relate to HSE employees only

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

[3] The maximum individual allowance and overtime payments may include amounts paid in 2012 in respect of previous years.

[4] Other includes sessional payments accounted for as payroll costs

5.2 Performance and Merit Payments

Arrears of performance related pay paid in 2012 was €252,366 (2011: €2,008).

Gratuities paid in 2012 amounts to €3.67 million (2011: €4.9 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 2012 amounted to €12 million (€11.6 million in 2011) and relates to salary and interviewer payments to retired HSE staff (excludes payments to agency staff).

Payments of €1 million were made in 2012 arising from Labour Relations Commission/Rights Commissioners awards (2011: €0.6 million).

The cost of severance awards paid in 2012 totalled €5,500.

6 Miscellaneous

6.1 National Lottery Funding

A total of €4.105 million was paid by HSE areas as summarised below and charged to Subhead B7. A listing of receipts of the funding and the amounts paid is available on the HSE website (www.hse.ie).

Block Allocations to the HSE Regions

	2012	2011
	€000	€000
Dublin Mid Leinster Region	1,205	929
Dublin North East Region	1,208	580
South Region	1,041	1,044
West Region	651	1,070
Total	**4,105**	**3,623**

6.2 Legal Fees and Compensation

Legal costs paid during the year are categorised as follows:

Legal Fees Paid	2012	2011
	€000	€000
Legal fees paid	45,877	35,147
Legal compensation costs paid	990	831
Total	**46,867**	**35,978**

The HSE paid a further €0.1 million in respect of various claims brought against it and settled in 2012 which were not covered under insurance.

Other ex-gratia payments made during 2012 amounted to €65,299 and other miscellaneous payments amounted to €649,878.

There were a total of 590 outstanding claims against the HSE with HSE Insurers at the end of 2012.

There were a total of 3,505 outstanding claims against the HSE with the State Claims Agency at 31 December 2012.

The HSE had 20 outstanding claims for compensation at 31 December 2012 which are not covered by the HSE insurance policy.

Insurance

Prior to 1 January 2001, HSE insurance premium was subject to retro-rating. Under the retro-rated 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 2012 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 €1.62 million 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 employers liability and public liability risks up to an indemnity limit, under both retro-rated and flat-rated basis.

Clinical Indemnity Scheme

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 2012, the estimated liability incurred to that date under the Clinical Indemnity Scheme and State indemnity was €996 million. Approximately €950 million of this relates to the Clinical Indemnity Scheme with the balance of the estimated liability relating to non clinical claims. In 2012, €76 million (2011: €81 million) was charged to the appropriation account.

6.3 Prompt Payment of Account Interest

Prompt Payment Interest paid by the HSE in 2012 was €0.2 million (€0.3 million in 2011).

6.4 Contingent Liabilities

Pharmacists lodged a claim with the HSE for loss of retail mark up on products dispensed under the terms of the over 70 medical card, products which would otherwise have been subject to higher margin where full eligibility did not exist. The claim is in the amount of €100 million, over and above the amount of €30 million currently paid per annum. The Irish Pharmaceutical Union (IPU) indicated that they will engage in non-binding mediation but may pursue the HSE through the courts if they are dissatisfied with the outcome. The matter of universal entitlement to a medical card for persons aged 70 years and over was removed by legislation in 2009. The Department of Health have confirmed that the HSE has applied the policy as set out and intended over the period during which automatic eligibility was in place for persons aged 70 years and over.

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 accounts.

6.5 Other

The HSE paid €3.8 million in respect of insurance premia in 2012 (€5.2 million in 2011) and this is reflected in the outturn for Subhead A.1 and B.1 to B.4.