

## **Vote 40 – Health Service Executive**

### **Preparation of the Appropriation Account 2006 from the Annual Financial Statements 2006**

#### **1. Introduction**

- 1.1. The purpose of this document is to set out how the Appropriation Account 2006 was prepared from the Annual Financial Statements 2006.

#### **2. Appropriation Account**

- 2.1. Section 20 of the Health Act, 2004 establishes the Chief Accounting Officer as the Accounting Officer for the Health Service Executive (Vote 40).
- 2.2. Under Section 22 of the Exchequer and Audit Departments Act 1866, an Appropriation Account must be prepared annually, in respect of each Vote and transmitted for audit to the Comptroller and Auditor General and also to the Department of Finance. The account must be signed by the Accounting Officer.
- 2.3. The Appropriation Account is prepared on a receipts and payments basis and recognises cash received and paid during the period of the account. It is a non-cumulative account and any amount under spent at year end is surrendered to the Exchequer.

#### **3. Financial Statements**

- 3.1. Section 36 (2) of the Health Act, 2004 requires the HSE to prepare Annual Financial Statements (AFS) in such form as the Minister for Health and Children may direct and Section 36 (3) requires that these accounts be prepared in accordance with accounting standards specified by the Minister.
- 3.2. The AFS are prepared on an income and expenditure basis. That is all income relating to the period is credited, whether actually received and all expenditure relating to the period both actual and accrued is debited. The balance of the account shows the excess of income over expenditure or vice versa.

#### **4. Preparation of Annual Financial Statements**

- 4.1. The published Annual Financial Statements are compiled by consolidating 18 individual financial statements from each of the former Health Boards and streamlined agencies, each of which are prepared from the legacy financial systems in place in each area.
- 4.2. The consolidated Balance Sheet for the HSE, based on the individual 18 financial statements is set out below:

**Table 1 – Consolidated HSE Balance Sheet at 31 December 2006**

	HSE	HSE	Movement	Line
	31/12/2005	31/12/2006	2006	No.
	€'000	€'000	€'000	
<b>Fixed Assets - Tangible Assets</b>	4,640,257	4,610,373	(29,884)	1
<b>Fixed Assets- Financial Assets</b>	98	3	(95)	2
<b>Stocks</b>	96,670	120,215	23,545	3
<b>Property Purchase Deposits</b>	1,052	3,644	2,592	4
Debtors - Patient Debtors	56,629	68,372	11,743	5
Debtors - Other Debtors Non Vote	24,464	21,975	(2,489)	6
Debtors - Other Debtors Vote	37,434	82,943	45,509	7
Debtors - SWA + Local Authorities	6,761	10,121	3,360	8
Debtors – Prepayments	16,051	17,115	1,064	9
Prepayments Suspense	53,617	8,009	(45,608)	10
Inter Agency Debtors	298,290	289,915	(8,375)	11
<b>Sub-TOTAL Debtors</b>	<b>493,246</b>	<b>498,450</b>		
Officers Imprests	899	660	(239)	12
Bank and Cash	62,488	54,099	(8,389)	13
PMG Account	54,230	40,738	(13,492)	14
Net Liability to the Exchequer	-	(32,583)	(32,583)	15
<b>Sub-TOTAL Bank &amp; Cash</b>	<b>117,617</b>	<b>62,914</b>		
Creditors - Bank Loans & Overdrafts	57,475	41,487	(15,988)	16
Creditors - Finance leases	1,752	1,119	(633)	17
Creditors - Non-Pay Creditors	165,349	171,355	6,006	18
Creditors - Accruals Pay & Non pay	923,589	1,019,155	95,566	19
Creditors - Income Tax	61,128	53,908	(7,220)	20
Creditors - PRSI	41,286	34,817	(6,469)	21
Creditors - Withholding tax	22,314	17,490	(4,824)	22
Creditors – VAT	942	1,838	896	23
Local Authority creditors	-	235	235	24
Creditors - Sundry Non Vote	6,571	14,691	8,120	25
Creditors- Sundry Vote	10,831	14,894	4,063	26
Inter-Agency Creditors	231,930	226,217	(5,713)	27
Inter-Agency Accruals	66,360	63,698	(2,662)	28
Creditors - Lottery Grants	1,690	2,590	900	29
<b>TOTAL Creditors &lt; 1 year</b>	<b>1,591,217</b>	<b>1,663,494</b>		
Bank Loans and Overdrafts	59	172	113	30
Finance Leases	40,060	40,645	585	31
Sundry Creditors Vote	11,741	501	(11,240)	32
Sundry Creditors Non Vote	651	(12)	(663)	33
Disposal Proceeds Account	18,867	18,820	(47)	34
<b>TOTAL Creditors &gt; 1 year</b>	<b>71,378</b>	<b>60,126</b>		
<b>Deferred Income</b>	<b>12,211</b>	<b>10,353</b>	<b>(1,858)</b>	<b>35</b>
Deferred Income Suspense	2,947	4,215	1,268	36
<b>TOTAL Deferred Income</b>	<b>15,158</b>	<b>14,568</b>		
Non-Capital I & E Account per Form 3	63,301	(18,858)	(82,159)	37
Once off non capital adj on transition to HSE	(847,875)	(844,274)	3,601	38
Capitalisation Fund	4,640,260	4,610,373	(29,887)	39
Surplus / Deficit on Capital I & E Account	(182,260)	(189,830)	(7,570)	40
Once off capital adj transition to HSE	(2,239)	-	2,239	41
Reserves on Establishment	-	-	-	42
<b>TOTAL</b>	<b>-</b>	<b>-</b>		

- 4.3. Following the validation of each individual AFS and the elimination of interagency balances a summary Trial Balance is produced by the AFS Team. The final summary Trial Balance prepared by the AFS team is as follows:

**Table 2 – Summary HSE Balance Sheet at 31 December 2006**

	2005 €'000	2006 €'000	Movement €'000
<b>Total Fixed Assets</b>	<b>4,640,355</b>	<b>4,610,376</b>	-29,979
Stocks	96,670	120,215	23,545
Debtors	196,008	212,179	16,171
PMG and Net Liability to Exchequer	54,230	8,155	-46,075
Cash at Bank or in Hand	5,912	13,272	7,360
Creditors	1,235,452	1,332,092	96,640
<b>Net Current Liabilities</b>	<b>(882,632)</b>	<b>(978,271)</b>	<b>(95,639)</b>
Creditors > 1 Year	71,378	60,126	-11,252
Deferred Income	15,158	14,568	-590
<b>Total Assets</b>	<b>3,671,187</b>	<b>3,557,411</b>	<b>-113,776</b>
Capitalisation Account	4,640,260	4,610,373	29,887
Capital Reserves	(184,499)	(189,830)	5,331
Revenue Reserves	(784,574)	(863,132)	78,558
<b>Capital and Reserves</b>	<b>3,671,187</b>	<b>3,557,411</b>	<b>113,776</b>

### Preparation of the Appropriation Account

- 4.4. The Appropriation Account outturn is derived from the trial balance at 4.3. above using two separate calculations, which must reconcile, as follows:

#### *Calculation of Net Vote Outturn from Revenue and Capital Expenditure*

- 4.5. The first calculation undertaken is to derive the net vote outturn by examining the movement in working capital balances as follows:

**Table 3 – Reconciliation of AFS Expenditure to Vote Expenditure**

Revenue Expenditure per Financial Statements	12,037,650
Capital Expenditure per Financial Statements	457,802
<b>Total Expenditure per Financial Statements</b>	<b>12,495,452</b>
Less Expenditure met from other Income	-2,419,721
Plus Increase in Stocks	23,545
Plus Increase in Debtors	16,171
Less Decrease in PMG and Net Liability to the Exchequer	-46,075
Plus Increase in Bank Balances	7,360
Less Increase in Creditors	-85,388
Less Increase in Other Reserves	-92
Plus Reduction in Deferred Income	590
<b>Net Vote Expenditure</b>	<b>9,991,842</b>

- 4.6. The principal of the above calculation is that expenditure recorded in the Financial Statements must be adjusted for non-cash movements.

*Calculation of Net Vote Outturn from Balance Sheet balances at 31/12/2006*

4.7. The second calculation is to examine each individual sub-class of asset and liability in the detailed balance sheet at 4.2 above and determine which balances should be classified as balance sheet accounts in the Appropriation Account (suspense accounts) per the rules of vote accounting. Suspense accounts are accounts to which the HSE must charge payments or credit receipts if the transactions comply with any of the following:

- Deductions of Income Tax, PRSI, VAT and Withholding Tax.
- Expenditure which is ultimately accounted for by another Government Department e.g. Supplementary Welfare Allowances and Housing Aid for the Elderly .
- Recoupable Expenditure e.g. salary advances.

The format of the calculation is as follows:

**Table 4 – Reconciliation of Net Liability to the Exchequer to Balance Sheet**

	HSE 31/12/2006 €'000	Notes Source per 4.2.
Bank	13,272	Lines 12,13,16
PMG	40,738	Line 14
Debit Suspense	104,717	Lines 4,7,8,10
Due to the State	(108,053)	Lines 20,21,22,23
Credit Suspense	(20,017)	Lines 24.26,30,32,36 -Line 4
Special I&E Suspense	1,926	Per Manual Analysis of AFS (Form 8)
Net Liability to the Exchequer	32,583	
Plus Exchequer Grant Undrawn <sup>1</sup>	332,428	
Surplus to be Surrendered	365,011	
Net Estimate Passed by Dáil Éireann	10,356,853	
Net Outturn i.e. Net Estimate less Surplus	9,991,842	Agrees with 4.5. above

4.8. The key to the reconciliation is the calculation of the Net Liability to the Exchequer which cannot be finally determined until the AFS for each area is completed and the various suspense account balances are identified.

4.9. The advantage of the dual reconciliation is that it also verifies the net expenditure figures per the Revenue and Capital Income and Expenditure Accounts.

4.10. The Vote and Treasury Team developed an automated solution, based on the AFS solution, to produce these reconciliations directly from each of the individual 18 financial statements.

<sup>1</sup> This represents the Net Estimate for 2006 less actual Cash Received in 2006 from Exchequer.

## 5. Analysis of Net Vote Expenditure

- 5.1. The reconciliations calculate and reconcile net vote expenditure. The Appropriation Account requires that this figure is analysed into its constituent parts i.e. Gross Revenue Expenditure, Gross Capital Expenditure and Appropriations-in-Aid.
- 5.2. The first step in the process is to determine the appropriations-in-aid (i.e. cash receipts). This is done in a number of ways. Cash receipts in respect of patient charges and superannuation are taken directly from supplementary notes prepared by each area in producing the financial statements. Other income per the financial statements is also analysed to determine the split between vote and non-vote receipts and to adjust for the movement in related debtor balances. The summary is as follows:

**Table 5 – Appropriations-in-Aid 2006**

Category	A-in-A 2006	Comments
Receipts from Social Insurance Fund	1,188,481	Based on lodgements to PMG Account
Other Receipts collected by HSE Corporate	590,880	Based on lodgements to PMG Account
Patient Charges	227,566	Directly from AFS
Superannuation	185,235	Directly from AFS
Other Receipts	110,403	See calculation below
<b>Total Appropriations-in-Aid</b>	<b>2,302,565</b>	

**Table 6 – Calculation of Other Income**

Other income per AFS	Year ended 31/12/2006	Source
Canteen Receipts	13,424,401	-AFS Form 4d
Rebate from Pharmaceutical Manufacturers	20,369,233	-AFS Form 4d
Other Income	95,668,251	-AFS Form 4d
<b>Movement in other Debtors</b>	<b>2,487,334</b>	Detailed Balance Sheet
<b>Less Non Vote income :</b>	<b>-21,545,792</b>	Analysis of S18 Other Income
<b>TOTAL</b>	<b>110,403,427</b>	

- 5.3. The second step is to calculate vote capital expenditure. This is undertaken by analysing the Capital Income and Expenditure Account per the Financial Statements and adjusting for movement in capital creditors and accruals and also adjusting for capital expenditure funded from other sources. The final summary reconciliation is:

**Table 7 – Vote Capital Expenditure 2006**

Category	Amount €'000	Notes
Total Capital Expenditure per Capital I&E Account	457,802	
Less Movement in Capital Accruals and Creditors	(130)	Adjustment to remove non-cash movements.
Less Projects funded from other Sources.	(13,948)	Only approved capital projects per the capital plan are funded from the Vote.
Vote Capital Expenditure 2006	443,724	

- 5.4. The net Vote expenditure can therefore be analysed as follows;

**Table 8 – Analysis of Net Vote Expenditure**

Category	Amount	Comment
Net Vote Expenditure	9,941,842	
Gross Revenue Expenditure	11,850,683	
Appropriations-in-Aid	(2,302,565)	
Net Revenue Expenditure	9,548,118	Revenue Income per Financial Statements
Gross Capital Expenditure	443,724	Capital Income per Financial Statements
Net Vote Expenditure	9,941,842	

## **6. Income Recognition in Financial Statements**

- 6.1. As outlined in Paragraph 5.4. above the primary relationship between the two sets of financial statements is income recognition. The Vote outturn figure (vote expenditure figure) is recognised as the Exchequer income to the HSE in the AFS. This is because the vote surplus at 31 December 2006 must be surrendered to the exchequer and is not available to the HSE.
- 6.2. The majority of the income in the AFS is exchequer income provided to meet liabilities maturing in the year as opposed to expenditure incurred in the year. A significant part of the remaining income is accounted for on a receipts basis.
- 6.3. However, expenditure is recorded in the AFS on an accruals basis. As a result the balances on the Income and Expenditure accounts do not represent normal operating surpluses or deficits, but are mainly attributable to the difference between accruals expenditure and cash based funding.