

Health Service Executive

Statement on Internal Control

This Statement on Internal Control represents the position for the year ended 31 December 2021. It sets out the Health Service Executive's approach to, and responsibility for, Risk Management, Internal Controls and Governance. This statement has been written considering the context of the on-going COVID-19 environment in 2021. During 2021 the HSE had been subject to a serious cyber-attack which is detailed in this statement.

1. Responsibility for the System of Internal Control

On behalf of the Health Service Executive (HSE) I acknowledge the Board's responsibility for ensuring that an effective system of internal control is maintained and operated. This statement has been prepared in accordance with the requirement set out in the Department of Public Expenditure and Reform's (DPER's) *Code of Practice for the Governance of State Bodies (2016)*.

The *Health Act 2004 as amended by the Health Service Executive (Governance) Act 2019* made provision for the establishment of a board (the "**Board**"), which is the HSE's governing body, with authority, in the name of the HSE, to perform its functions. The Board is accountable to the Minister for Health for the performance of its functions. The amended 2004 Act also provides for a Chief Executive Officer (CEO) who is accountable to the Board. The Board must satisfy itself that appropriate systems of internal control are in place.

The Board is required to review the controls and procedures adopted by the HSE to provide itself with reasonable assurance that they are adequate to secure compliance by the HSE with its statutory and governance obligations. The Board is also responsible for strengthening governance, oversight and performance. The Board members have sufficient experience and expertise relating to matters connected with the functions of the HSE to enable them to make a substantial contribution to the effective and efficient performance of those functions. The amended 2004 Act also provides for the establishment of an Audit and Risk Committee and such other committees or sub-committees that the Board deem necessary to assist it in the performance of its functions.

The Board has established four committees to provide more detailed oversight of specific areas as defined in the respective committee's terms of reference. These committees are:

- the Audit and Risk Committee
- the Performance and Delivery Committee
- the Safety and Quality Committee
- the People and Culture Committee

Terms of reference for the Board Committees are published on the HSE's website and are subject to periodic review.

The work of the HSE Board and its Committees and the Executive has continued to have been impacted by the on-going COVID-19 pandemic.

During 2020 the HSE Board recognising the unique and rapidly changing environment caused by the COVID-19 pandemic took the decision to provide a mandate to the CEO to make the necessary decisions as required within the all Government and multi-agency approach to the

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management of the emergency. This delegation was time bound and was appropriate to the emergency situation caused by the COVID-19 pandemic. All reserved functions of the Board have been restored on 24th September 2021.

The HSE wishes to acknowledge the continuing substantial support from the private sector and the citizens of Ireland at all times over the course of 2021 and which is continuing. The HSE Board met on 21 occasions in 2021 including facilitating 2 detailed workshops.

During 2021 owing to the on-going impact of the COVID-19- pandemic HSE staff have continued to react at pace to changed working environments and practices such as redeployment from their normal roles to support COVID-19 requirements as well as working from home in line with Government requirements for social distancing.

The system of internal control is considered even more crucial in a time of crisis and the Board and Management have had to review and reassess elements of the control environment which has been further considered as part of the overall annual review of the effectiveness of the system of internal control.

On the 13th May 2021 the HSE and wider health system had been subject to a very serious cyber-attack perpetrated by a criminal organisation which is believed to operate outside of the State. All HSE system were restored, however, this situation has also impacted on the system of internal control and is discussed in greater detail later in this statement.

2. Purpose of the System of Internal Control

The system of internal control is designed to manage and reduce risk rather than to eliminate risk and as such the review of the system of internal control is designed to provide reasonable but not absolute assurance of effectiveness. The system of internal control seeks to ensure that assets are safeguarded, transactions are authorised and properly recorded and that material errors and irregularities are either prevented or detected in a timely manner.

The system of internal control is also designed to ensure appropriate protocols and policies are in place and operating effectively in the context of clinical and patient safety.

The system of internal control, which accords with guidance issued by DPER, has been in place in the HSE for the year ended 31st December 2021, and up to the date of approval of the financial statements, except for the control issues outlined below.

Section's 7 and 8 detail the impact of the COVID-19 pandemic and the cyber-attack on the HSE's control environment and the mitigating actions taken by management to ensure that its internal controls remain fit for purpose.

3. Capacity to Handle Risk

The Board, as the governing body of the HSE, has overall responsibility for the system of internal control and risk management framework. The Board may establish committees to provide assistance and advice in relation to the performance of its duties and functions.

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The **Audit and Risk Committee** was established in accordance with the provisions of the 2019 Act. The membership of the Audit and Risk Committee consists of four external members and three members of the HSE Board. All members are considered by the Board to have the relevant skills and experience to perform the functions of the Committee including highly experienced and qualified finance professionals.

Among its responsibilities the Audit and Risk Committee is required:

- to advise the Board and the CEO on financial matters relating to their respective functions and a number of compliance matters related to same
- to provide advice to the Board and the CEO on the regularity and propriety of transactions recorded in the accounts and on the effectiveness of the system of internal control operated by the HSE
- to provide oversight and advice regarding the operation of the HSE Risk Management framework and related activities
- to provide oversight and advice in relation to the HSE Internal Audit Function
- to report in writing at least once a year to the CEO and Board on all matters within its remit and to provide a copy of that report to the Minister for Health.

The functions of the Audit and Risk Committee include a range of financial, statutory, compliance and governance matters as set out in legislation.

The Audit and Risk Committee operates under an agreed Charter which sets out in detail the role, duties, and authority of the Committee. The Audit and Risk Committee is required to meet at least four times annually. In 2021 the Audit and Risk Committee met on 17 occasions reflecting the additional responsibilities which arose due to the COVID-19 pandemic as well as the HSE Cyber-attack.

Anticipating and reducing threats to the delivery of health and social care services remains a critical priority for the HSE. The management of corporate risks is therefore an important organisational process and these risks are recorded in the HSE's Corporate Risk Register. The identification and monitoring of corporate risks allows the Board and the EMT to assess and manage the HSE's key risks and responses to those risks.

The Board is supported by the ARC and other Board Committees who report the findings of their reviews of risk to the Board. The ARC also receives regular reports on risk management from the Chief Risk Officer and checks progress against agreed action plans to manage identified risks. The Audit and Risk Committee provide significant oversight in this regard.

The HSE has an **Internal Audit function** with appropriately trained personnel operating in accordance with a written charter approved by the Audit and Risk Committee.

The National Director of Internal Audit reports to the Audit and Risk Committee and has an administrative reporting relationship to the CEO and is a member of the HSE Executive Management Team (EMT). The work programme of Internal Audit is agreed and monitored by the Audit and Risk Committee.

During 2021 the Health Care Audit function was integrated into the Internal Audit function and this statement is written in that context.

The HSE's Internal Audit function is responsible for ensuring that a comprehensive programme of audit work is carried out continually throughout the HSE. The purpose of this work is to

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provide assurance that controls and procedures are operated in accordance with best practice and with the appropriate regulations and to make recommendations for the improvement of such controls and procedures. The scope of the Internal Audit function covers all systems and activities throughout the HSE including bodies funded by the HSE.

Despite the on-going challenges of the on-going COVID-19 environment as well as the impact of the cyber-attack in 2021 the Internal Audit division completed a substantial body of work as part of its annual risk-based work plan, issuing 161 audit reports, containing 890 recommendations, in relation to HSE and its funded agencies. The findings of these reports were considered by the HSE Audit and Risk Committee and EMT.

Based on the work of Internal Audit and the results of the individual internal audit engagements, the 2021 Annual Report of the National Director of Internal Audit provided an overall audit opinion that limited assurance can be provided in respect of governance, risk management and financial control processes.

The Internal Audit opinion is based on the following four possible ratings and their definitions:

Type of Overall Opinion Rating	Definition
1. Satisfactory	Overall, there is an adequate and effective system of governance, risk management and controls. Some improvements may be required to enhance the adequacy and/or effectiveness of the system.
2. Moderate	There are weaknesses in the system of governance, risk management and controls which create a moderate risk that the system will fail to meet its objectives. Action is required to improve the adequacy and/or effectiveness of the system.
3. Limited	There are weaknesses in the system of governance, risk management and controls which create a significant risk that the system will fail to meet its objectives. Action is required to improve the adequacy and/or effectiveness of the system.
4. Unsatisfactory	There are weaknesses in the system of governance, risk management and controls which create a serious and substantial risk that the system will fail or has failed to meet its objectives. Urgent action is required to improve the adequacy and/or effectiveness of the system.

The HSE has in place an **integrated risk management policy** which clearly defines the roles and responsibilities for all levels of staff in relation to risk (financial and non- financial). The policy is communicated across all levels of staff.

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The HSE is committed to ensuring that risk management is seen as the concern of everyone, is embedded as part of normal day to day business and informs the strategic and operational planning and performance cycle. The HSE has appointed a Chief Risk Officer in 2021 to ensure appropriate senior oversight of this key area.

The **Performance and Delivery Committee** has been set up to provide the Board with advice on all matters relating to performance within the health service to ensure that such performance is optimised across the relevant domains of the agreed Board Strategic Scorecard to ensure better experience for patients and service users.

The **Safety and Quality Committee** provide advice to the Board in relation to Patient Safety and Quality issues.

The **People and Culture Committee** provides advice to the Board on all matters relating to staff and workforce planning,

All HSE Committees meet regularly in line with their specific charters and fulfil an additional monitoring role on behalf of the HSE Board.

4. Risk and Control Framework

Management of risk is an integral part of good governance. The HSE has developed an **Integrated Risk Management** policy which has been guided by the principles of risk management outlined in ISO 31000 (ISO 31000 is an internationally recognised standard informed by experts in risk management). This policy and its guidance documentation, is available to all staff.

Management at all levels of the HSE are responsible to the CEO for the implementation and maintenance of appropriate and effective internal control in respect of their respective functions and organisations. This embedding of responsibility for the system of internal control is designed to ensure not only that the HSE can detect and respond to control issues should they arise, with appropriate escalation protocols, but also that a culture of accountability and responsibility pertains throughout the whole organisation.

The HSE's risk management policy involves proactively identifying risks that threaten the achievement of objectives and putting in place actions to reduce these to an acceptable level. The policy sets out the risk management processes in place and details the roles and responsibilities of staff in relation to risk. Risk management is the responsibility of all managers and staff at all levels within the HSE.

The CEO is responsible for leading and directing the HSE's activities, including the development of the risk management policy. The HSE's risk management framework is approved by the Audit and Risk Committee and by the Board.

The Audit and Risk Committee on behalf of the Board provide oversight and advice on the operation of the HSE's Risk Management Framework.

Risk registers are required to be in place at key levels in the organisation. These identify the key risks facing the HSE.

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At an organisational level, the **Corporate Risk Register** is subject to monitoring and updating on a quarterly basis. The risk registers set out the existing controls, the risk rating and any additional actions required to mitigate each risk and assigns both persons and timescales for completion of these. During 2021 all COVID-19 risks were reviewed monthly to reflect the dynamic nature of the risks caused by the pandemic.

The responsibility for the management of claims from clinical and operational incidents under the Clinical Indemnity Scheme (CIS) and General Indemnity Scheme (GIS) has been delegated to the State Claims Agency (SCA) under the *National Treasury Management (Amendment) Act 2000*. The SCA also provides specialist advice, including risk management advice, to the HSE which is supported by the national incident management reporting system (NIMS).

The HSE has in place an internal control framework which is monitored to ensure that there is an effective culture of internal control. The HSE's **Code of Governance** which was revised in 2021 is set out on www.hse.ie and includes the following:

- The Code of Governance reflects the current behavioural standards, policies and procedures to be applied within and by the HSE and the agencies it funds, to provide services on its behalf
- The Code of Governance provides clarity on the governance roles and responsibilities in relation to the roles of the Minister for Health and his Department officials, The HSE Board and the CEO and Executive Management team of the HSE
- The Performance and Accountability Framework describes in detail how managers in the health service, including those in CHOs and Hospital Groups will be held to account for performance in relation to service provision, quality and patient safety, finance and workforce
- There is a framework of administrative procedures in place including segregation of duties, a system of delegation and accountability, a system for the authorisation of expenditure and regular management reporting
- The HSE's National Financial Regulations form an integral part of the system of internal control and have been designed to be consistent with statutory requirements and to also ensure compliance with public sector guidelines issued by the DPER
- The HSE has in place a devolved annual budgetary system and each year the Minister for Health formally approves the annual National Service Plan (NSP). Defined accountability limits are set which are closely monitored by the National Performance Oversight Group (NPOG) on behalf of the CEO
- The HSE has in place a wide range of written policies, procedures, protocols and guidelines in relation to operational and financial controls
- The HSE carries out an annual comprehensive review of the system of internal control, details of which are covered in a later section of this report
- There are systems and controls aimed at ensuring the security of the information and communication technology systems within the HSE. This is an area of high priority for the HSE given the challenges of managing multiple systems across the entire HSE. There are on-going developments to improve security and to ensure that the HSE has the appropriate level of resource and skills to protect the integrity of its systems to ensure that data and information is protected

Additionally, an annual Controls Assurance Statement (CAS) must be completed by all senior management at Grade VIII and above. This statement requires management to confirm that

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they are aware of and comply with the key controls and the code of governance in place within the HSE.

5. Procurement

The HSE has procedures and policies in place to ensure compliance with current procurement rules and guidelines. In procuring goods and services, all areas within the HSE must comply with the relevant procurement procedures which are set out in detail in the HSE's National Financial Regulations.

During the early stages of the COVID-19 Pandemic in 2020 there was an urgent need for the HSE and Ireland to source sufficient purchases of PPE to equip the Irish Healthcare system in the COVID-19 response. The HSE procurement effort had to move at pace and it was necessary to use the emergency protocols of Article 32 of the Procurement Directive extensively.

Article 32 governs the use of the negotiated procedure without prior publication insofar as is strictly necessary for reasons of extreme urgency and it allows the removal of the requirement to competitively tender for publicly awarded contracts.

The impact of the COVID-19 pandemic has had an ongoing and significant impact on competitive and compliant procurement in 2021 as the health services had to respond with urgency to national public health initiatives to address the pandemic and many key procurement staff are still in re-deployed roles.

Matters arising regarding controls over procurement are highlighted under heading 14 Internal Control Issues.

6. On-going Monitoring and Review

Formal procedures have been established for monitoring control processes and control deficiencies are communicated to those responsible for taking corrective action and to the Board and senior management. I confirm that the following on-going monitoring systems are in place:

- Key risks and related controls have been identified and there is a process in place to monitor the operation of these controls.
- Reporting arrangements have been established at all levels where responsibility for financial management has been assigned.
- The Minister for Health, the Chair of the Board and CEO meet monthly to discuss and review performance matters.
- There are regular reviews by senior management of periodic and annual performance and financial reports indicating HSE performance against budgets/forecasts.
- There are regular reviews by the DoH of the HSE's performance in terms of budget and service plans as well as including other key non-financial reporting such as workforce planning.
- The CEO and EMT meet as part of normal business at least twice monthly.

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- There are monthly Board meetings which are attended by the CEO and members of the EMT.
- During 2021 the Board met on a greater frequency than monthly to adequately react to the on-going HSE COVID-19 environment as well as the impact of the cyber-attack.
- All Committees of the Board meet regularly to review areas that fall under their specific remit and to provide advice and feedback to the Board.
- The Board and its committees and the EMT have considered the impact of COVID-19 and the cyber-attack on all areas of the HSE including funding, its control and risk environment and governance arrangements.

The **National Performance Oversight Group (NPOG)** has responsibility as part of the overall accountability process to oversee performance against the national Service Plan.

NPOG members meet monthly to review performance against the National Service Plan. A monthly report on performance is prepared for the CEO which includes details of any serious performance issues requiring formal escalation.

The CEO provides a performance update to the Board monthly which includes the relevant outputs from NPOG.

Additionally, as referenced in section 3 the Board has appointed appropriate committees to provide advice to the Board in the implementation of its functions.

The work of Internal Audit forms an important part of the monitoring of the internal control system within the HSE. The annual work plan of Internal Audit is informed by analysis of the key risks to which the HSE is exposed and is approved by the Audit and Risk Committee. The National Director of Internal Audit attends all Audit and Risk Committee meetings and has regular one to one meetings with the Vice Chairperson of the Audit and Risk Committee who is a member of the HSE Board. Additionally the National Director of Internal Audit has regular one to one meetings with the CEO. Monitoring and review of the effectiveness of the HSE's internal controls is also informed by the work of the Comptroller and Auditor General (C&AG). Comments and recommendations made by the C&AG in his management letters, audit certificates or annual reports, are reviewed by the Board, EMT and the Audit and Risk Committee, and actions are taken to implement recommendations.

7. Impact of COVID-19 on the System of Internal Control

The COVID-19 pandemic continued to impact the normal ways of working across all major divisions of the HSE requiring HSE staff to work remotely to be compliant with public health and government guidance to safeguard the health of the HSE workforce and the people that rely on them.

During 2021 the Board delegation in respect of Contract approvals and donations was no longer required and normal protocols were restored to the Board.

HSE staff and management were still required to make many significant changes to support the provision of services during the COVID-19 pandemic. A key new development in 2021 related to the setting up of vaccination centres across Ireland involving many HSE staff who continued to be re-deployed from their normal roles.

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The HSE has continued to issue a very significant number of circulars over the course of the past year to provide appropriate guidance and support to HSE staff and management given these new working arrangements. This guidance covered areas such as:

- Health and Safety guidance
- Mental Health supports
- ICT controls, encryption requirements and password protocols
- GDPR requirements and safeguarding of information.
- Getting back to the work environment as appropriate

Despite the changed working environment, the HSE's financial systems operate with the same security controls whether staff are working in a HSE location or remotely at home. Access to our financial systems is online using encrypted laptops and PC's using VPN and/or MIFI devices. All of which are protected by password protocols.

Staff working on privileged systems such as payroll, accounts payable, Fair Deal and treasury were supported by updated contingency plans which provided them with extra security and advice with regards to the new working arrangements. Some key tasks could only be conducted at a secure HSE location with appropriate safety protocols in place to protect these staff. Staff rotas were instigated in such instances to ensure the protection of the staff, the activity, and the controls environment.

Normal ICT protocols are still in operation requiring user password protocols. Regarding priority systems segregation of duties remained high priority in relation to input and authorisation tasks and no changes were made to authoriser levels in those key areas.

The new working arrangements did necessitate amendments to some of the HSE's national financial regulations (NFRs) to consider the impact of staff redeployments and the threat of staff shortages to allow as much as possible for business-as-usual continuity. These amendments continue to be reviewed in 2021 and only those deemed necessary have continued.

The HSE's NFR19 requires all areas of the HSE with significant inventories at the year-end date to perform stock takes. Considering the impact of the COVID-19 pandemic derogations were provided in locations which were directly impacted by COVID-19 as a safety measure for staff, patients, and service users. At the end of 2021 arising from the significant Omicron surge €5 million of the HSE's year-end inventory has been estimated using most recent and reasonable stock count information.

The amended regulations are monitored closely by the National Financial Division.

8. Impact of Cyber-Attack on the System of Internal Control

The cyber-attack which occurred in May 2021 (and which is discussed in more detail in Section 10 of this statement) significantly impacted the non-clinical systems around financial reporting, processing of payroll, payment to suppliers and access to procurement systems.

HSE finance and procurement staff lost access to all IT systems, and due to the infiltration of the HSE's systems normal disaster recovery plans had to re-designed at speed in order to ensure that all appropriate payments could proceed with the least impact on controls.

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The HSE has a backup of all payroll and payment processes managed by a third party expert supplier. This supplier was able to provide a secure backup as well as a physical location whereby HSE staff could work to ensure that all appropriate payments were made on time and with minimal disruption.

Once the HSE financial systems were brought back on-line this data was restored to the HSE's ledgers and systems.

9. Personal Protective Equipment (PPE)

The use of appropriate PPE remained a significant element of the Government and HSE's management of the COVID-19 pandemic during 2021 particularly through the specific surges. The HSE continued to take the lead in ensuring that there was a secure pipeline of PPE available when it was needed most. During 2020 the bulk of PPE was dominated by Chinese suppliers, however in 2021 the Irish Government made a commitment to ensure Irish indigenous companies were not further disadvantaged and to ensure that there is a secure future pipeline of PPE not dependant on international markets. Therefore the majority of the expenditure during 2021 was from Irish suppliers.

The HSE was mandated by Government to source PPE and received additional sanction of up to €450 million to ensure supplies were available. This sanction includes the logistics costs such as warehousing and transport.

As a result of the HSE successfully securing vital PPE during 2020 and again in 2021 all Healthcare settings were appropriately stocked with PPE at all times in 2021 and in particular during the well noted COVID-19 surges.

The cost price of PPE continued to be significantly higher due to ongoing worldwide demand especially in the early stages of 2021 when additional purchases of PPE was made.

As at 31st December 2021 the HSE has reported that it holds €73 million of stock related to items of PPE which were not used before the end of the year. (FY2020 PPE stock was €182 million). The cost of PPE items purchased during 2021 is €170 million because of the market forces noted above.

The HSE values its year-end stock in the financial statements at the lower of cost or replacement cost. The HSE has recorded the difference between the cost of this PPE and its replacement cost of €70.6 million as an expense in its Revenue Income and Expenditure account. This is detailed in Note 16 Inventories in the Annual Financial Statements (AFS).

Additionally the HSE has reviewed a number of key PPE stock items to determine whether there is any requirement to provide for obsolescence arising from factors such as the normal shelf life of these stocks. This review has determined that the stocks of hand gels held at the end of 2021 indicate that it will take a number of years at current demand levels to use these in HSE services. Accordingly the HSE has recorded a provision of €25.6 million in relation to the predicted impairment of these hand gels.

The HSE is considering whether there are stocks of PPE on hand that can be donated to overseas countries which may have a need for these stocks, this has been estimated at €12.7 million which has been recorded in 2021 financial statements.

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The overall impairment loss therefore in 2021 is €108.8 million which is charged to expenditure in 2021. The overall cost of these PPE items in 2021 is estimated at €352 million of which €279 million has been charged to the Revenue Income and Expenditure Statement with the remainder of €73 million charged to Inventory in the Statement of Financial Position.

10. Procurement of Ventilators

The HSE's financial statements of 2020 reported a bad debt provision of €42.5 million in relation to advance payments to vendors in 2020 where orders had not been fulfilled or where equipment was received but not deemed to be clinically appropriate for use.

During 2021 the HSE has recovered €12.1 million which has been reflected in the 2021 financial statements. All efforts are still being taken by the HSE to recover additional monies in this regard.

The Comptroller and Auditor General team are currently working on a report on this matter.

11. Review of HSE non-pay accruals

The financial statements disclose a non-cash adjustment of €71.4 million to previously reported expenditure figures. This mainly relates to one region ("region A") which uses an accounting system which has limited reporting functionality on accrued balances. Excess accruals were booked over a number of financial years but were most significant between 2016 and 2019. Controls to mitigate the limited functionality had been in place prior to 2016 but due to the impact of structural organisation change, and lack of clarity of responsibilities the errors were not detected for a period.

In 2020, financial staff in the region A identified a problem with the level of accrued balances but due to the onset of the Covid-19 pandemic and re-deployment of staff arising from same, they were not in a position to complete the necessary work to correct the balances until 2021 at which point the National Financial Division (NFD) had commenced a detailed assurance review of almost €761 million or 76% of its overall non-pay accruals that had been reported in the financial statements of 2020. This review included all HSE accruals greater than €20,000 but not limited to same.

The detailed review conducted by the NFD agreed with the findings of "region A" and aside from an immaterial amount in one other region, the review concluded that there was satisfactory evidence to support the accrual balances in the financial statements.

The HSE's financial statements are prepared in line with Irish and UK Generally Accepted Accounting Principles (GAAP), FRS102 with some exceptions specified by the Minister for Health. Therefore the HSE is required to account for the €71.4 million adjustment in line with FRS102. This accounting treatment is considered a technical accounting adjustment and the appropriate accounting treatment is to reduce this expenditure in the HSE's Statement of Movement in Reserves by reducing the opening deficit by the adjustment identified by the review team. This technical adjustment is non-cash impacting, it does not increase expenditure but reduces it, and does not require any additional funding to be provided and therefore does not impact on the delivery of HSE services to patients or service users.

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The HSE has reviewed the adjustments found in each relevant year in the context of the overall revenue funding required to deliver health services and has determined that there is no material impact on the financial results of any of the years in which the adjustments arose. The most material of these adjustments €16.3 million relates to 2018 when the HSE's revenue funding was in the order of €15.2 billion. The HSE has concluded that there is no material impact on the Income and Expenditure included in the financial statements in any of the affected years.

The HSE and region A has enhanced its procedures with regard to the checking and validating of accrued expenditure and provisions. It has also strengthened its monitoring and review of ongoing balances.

The NFD are developing a HSE wide process regarding the validation, approval and on-going monitoring of accrued expenditure. Additionally there is some system work which is being conducted to allow aging of accruals which will further enhance the on-going review of same.

Notwithstanding the fact that the HSE has not identified a systemic issue in relation to accrued expenditure, additional assurance activity will take place during 2022.

This adjustment is not the correction of a fundamental error. Up to the implementation of the current accounting standard (FRS102) in 2015, prior year adjustments were rare and were reserved for very limited circumstances, including where there was an error in the financial statements that destroyed their truth and fairness. Since 2015, prior year adjustments are used more frequently in financial statements, including to improve comparability between reporting periods. For the avoidance of doubt, had the higher level of HSE accruals carried on the HSE Balance Sheet been corrected, none of the necessary adjustments would have threatened the truth or fairness of the financial statements or qualified in previous years as a fundamental error.

12. Review of the Effectiveness of the System of Internal Control

I confirm that the HSE has procedures to monitor the effectiveness of its risk management and control procedures. The HSE's monitoring and review of the effectiveness of the system of internal control is informed by the work of the Internal and External Auditors, the Audit and Risk Committee and senior management within HSE responsible for the development and maintenance of the internal control framework.

I confirm that the HSE conducted an annual review of the effectiveness of the Internal Controls for 2021 which took into account:

- Audit and Risk Committee minutes and reports
- Annual Report of the National Director of Internal Audit including the findings and recommendations from internal audit reports
- Findings arising from the Internal Control Questionnaire (ICQ) and Controls Assurance Statements (CAS)
- Status of the recommendations of previous years' reports on the Review of the Effectiveness of the System of Internal Control
- Recommendations from management letters of the C&AG
- The 2021 audit programme of the C&AG and in particular, the audit risks identified therein.
- Reports of the Committee of Public Accounts

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- HSE Board and EMT minutes
- Minutes of steering group/working group/implementation groups etc.
- External reviews undertaken by the HSE to assist in identifying financial control issues and implementing revised policies and business processes
- HSE Corporate Risk Register new monthly process in relation to key operational risks including COVID-19 risks and an enhanced quarterly review process overseen by the Corporate Risk Support Group
- Findings arising from the compliance monitoring arrangements with S38 and S39 agencies
- Guidance from the office of the Comptroller and Auditor General (OCAG) (Audit Insights paper 2020) to public organisations in respect of their control environment in the current COVID-19 pandemic
- Changes to working environment and remote working and new ways of working
- Impact of staff redeployments particularly in key privileged areas such as Payroll, Accounts Payable and Banking and Treasury functions
- Review of Key NFRS during COVID-19 particularly around approvals for purchasing (procurement)
- Review of key plans such as the HSE Winterplan, National Service plan and impact of additional funding
- Status of the progress of each of the six work-streams identified as part of the three year controls improvement programme which was approved in early 2021 by the EMT.

Annually the HSE requires all relevant senior staff at Grade VIII (or equivalent) and above to complete an internal control questionnaire (ICQ) which is designed to provide essential feedback in respect of key control and risk areas. This allows the HSE to monitor the effectiveness of key controls and to direct remediation activity where required.

Despite the challenges of COVID-19 and the cyber-attack an additional 6% of HSE staff participated in the ICQ process. This reflects the growing understanding across HSE staff at all levels of the importance of good controls and compliance with same.

In response to the COVID-19 impact on its control's environment an additional section on COVID-19 controls was again included in the HSE Leadership ICQ. This considered the guidance from OCAG as noted above.

The HSE has engaged an independent audit firm through a competitive process who have conducted a review of 7% of ICQ participants which has provided a very high level of assurance as to the integrity of the responses.

The report on the review of the system of internal control is reviewed annually by the Audit and Risk Committee, the CEO and EMT and by the Board of the HSE.

The results of the review indicate there is evidence that:

- The HSE has adopted a suite of internal policies and procedures, which form the basis of the internal control framework
- Where high level risks have been identified, mitigating/compensating controls are generally in place
- There are several instances of non-compliance with these HSE adopted policies and procedures which have been identified exposing the organisation to material risk however on-going process and control improvements are visible in many areas

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- Awareness of the requirement for internal controls and accountability has increased during 2021 with a continued increase in the number of staff who completed the ICQ survey increasing by a further 6% which is very significant in the context of the COVID-19 environment in which most staff were coping with.
- Analysis indicates that most managers have a very high understanding and awareness of their responsibility in respect to internal controls. However, there is still further work to be conducted to ensure a consistent approach and understanding by all managers which will further improve the internal control environment
- Additional COVID-19 assurances were sought from HSE leadership based around the C&AGs Audit Insights document which was used as part of the ICQ review and which included assurances around controls implemented during the COVID-19 pandemic
- Despite the challenges the review considered that assurance can be placed on the sufficiency of internal controls to mitigate and/or manage key inherent risks to which activities are exposed. However, when combined with the weaknesses identified and the findings of the National Director of Internal Audit, this assurance can only be considered as limited. A significant number of weaknesses remain in the HSE's internal controls as evidenced by the number of breaches that occur. It should be noted however that during trying conditions for all staff, controls and compliance remains a priority and, in some places, improvements were recognised
- There is evidence that there is a continuing awareness and understanding of the need for accountability and responsibility by HSE managers to ensure a strong system of internal control. However, there is still evidence of a lack of full understanding of the relevant core guidelines and policies across the organisation. Additional focus such as management and staff training sessions have been a key part of control improvement plans for 2021.

Overall, limited and not absolute assurance can be placed on the current system of internal control to mitigate and/or manage key inherent risks to which financial activities are exposed. Instances of non-compliance observed reduce the level of assurance that can be provided. Improvements in these areas will continue to receive significant focus from the HSE in the short to medium term and in particular through the three year controls improvement programme which commenced in 2021.

The control weaknesses observed in the review are set out in section 14 Internal Control Issues along with management action that is being taken to address these issues.

13. Internal Control Framework Improvement Plan

During 2021 the CEO and EMT have agreed and approved the commencement of a 3-year plan intended to improve the HSE's current internal control framework.

This controls improvement programme is a key objective for the HSE and is led by the office of the Chief Financial Officer (CFO).

This plan focuses on the following six major work streams which will help underpin strong controls across all key areas within the HSE.

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Work Stream #1:	Review, Revision and Rollout of HSE National Financial Regulations
Work Stream #2:	Communication and awareness campaign
Work Stream #3:	Continued Development of Controls and Compliance Reporting and Monitoring Tools
Work Stream #4:	Internal Control Framework, including selection, benchmarking of HSE and creation of toolset and programme for ongoing self-assessment by service units
Work Stream #5:	Performance management and performance achievement optimisation
Work Stream #6:	Investing in an enhanced 2nd Line of Defence

Each work-stream commenced in 2021 with some being further advanced than others in line with the timescales identified in the programme plan. Ultimately it is anticipated that by early 2024 all work streams where appropriate will have successfully moved to business as usual activities and will have a significant impact on the HSE's overall system of internal controls. It is equally anticipated that as each work stream progresses to completion that this will drive continuous improvements in the system of internal controls.

The cyber-attack in 2021 has required that the timelines of the original plan have had to be amended, however, despite this work continued and in some instances the team were able to reschedule work to keep the overall work of the programme operational.

Work stream 1 which is the revision and rewrite of the HSE's National Financial Regulations is at an advanced stage of progress. A new and improved NFR framework has been agreed which are built around 5 key areas:

- Overarching Principles
- Operational Regulations
- Custodian Regulations
- Financial Reporting
- Budgeting, Planning and Performance

The review has gone through a series of workshops with subject matter experts (SMEs) and initial road testing has been conducted. Final user acceptance testing is expected to conclude by early Q3 2022. A suite of updated documents are expected to be finalised and published by end of Q3 2022.

The HSE is also looking to develop a digital platform where users can easily access relevant regulations in line with HSE digital communication policy and plans.

Work stream 2 which relates to communication and training is well developed and is essentially now business as usual. A full schedule of broadcasts and training webinars were completed on

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various control subjects, such as payroll, travel and subsistence, annual leave, assets and ICT issues.

Significant numbers of HSE staff have availed of these training supports to date. Over 3,300 HSE staff attended these training and communication sessions during 2021.

Training videos have been developed which can be shared online with HSE staff through various digital channels. There have been articles in Hospital Groups (HG) and Community Healthcare Organisations (CHOs) newsletters as well as articles in Health Matters HSE staff publication.

These communications are intended to raise the awareness of the importance of the system of internal control. A series of surveys are helping to track improvement awareness and to target additional training needs.

Work stream 3 targets improved reporting and monitoring of control findings so that management across all CHO, HGs and National Divisions can easily determine what control issues require their attention in their own areas of responsibility.

This improved reporting will also provide more timely information for the EMT who can work with their senior teams to target control improvements.

An interim data repository tool has been developed which currently can provide detailed information relating to internal audit findings as well as the findings arising from OCAg external audits both locally and at the national level.

A business case has been approved for the development of a bespoke data repository and reporting tool which will reduce manual activity and which will allow multiple users live but secure access to improve timeliness of reporting and response. This is a longer term objective and is anticipated to go live in pilot areas by early 2023.

Work-stream 4 relates to the development of a controls framework which will enable HSE HGs, CHOs and Division to benchmark their internal controls and to conduct a detailed review in their areas across all financial control headings.

Pilot sites have been agreed for testing, and detailed checklists and support documentation is at a late stage of development. The pilots are expected to commence by Q4 2022.

Work stream 4 relates to performance achievement and performance management. All key HSE management are expected to include awareness of controls as part of their individual personal objectives and to ensure that this is disseminated across their wider teams.

Currently management reports are being developed from the data repository noted in work stream 3 which will assist HSE Management to include the progression of control findings and recommendations in their performance management processes.

Work stream 6 refers to the enhancing of the HSE's second line of defence by ensuring that there are sufficient resources in place to support management in its objective to carry out regular checks as to the sufficiency of their internal controls.

Significant additional resources have been secured and are in place in the key areas of National Governance & Compliance, HR oversight of payroll overpayments, and setting up of Contract Management Support Units (CMSUs) in each community organisation to assist with the governance of grants to external agencies. Additionally resource has been secured in the key

area of risk and currently key roles are in an advanced stage of recruitment. Procurement resourcing has been agreed for a further 20 Grade 7 staff and recruitment will commence by Q2 2022 in this key area.

14. Internal Control Issues

The weaknesses identified are detailed below.

I. Integrated Financial Management and Procurement System (IFMS)

The HSE does not have a single financial and procurement system. The absence of such a system in the HSE presents additional challenges to the effective operation of the system of internal financial control. Numerous external reviews have reiterated the consensus amongst the finance community in the HSE that the current financial systems are not fit for purpose.

The absence of a single national system requires that significant work be undertaken manually to ensure that the local finance systems and the National Finance Reporting Solution are synchronised and reconciled. This approach is increasingly challenging in the light of changes to organisational structure and the ageing of the systems.

A key element of the Finance Reform Programme is the implementation of a single national integrated financial management and procurement system, or IFMS, based on a set of agreed national standard finance and procurement processes, a single National Chart of Accounts and National Enterprise Structure, and a new National Shared Services Model.

A significant enabler of the IFMS project is the development of a Financial Management Framework which defines the process, governance and controls required to demonstrate effective financial management practice across the health system. The Framework is a living document which is reviewed on a regular basis and has most recently been approved by the Finance Reform Programme (FRP) Steering Committee in January 2020. Development of the framework and associated strategies will continue as the programme progresses.

Benefits of IFMS

IFMS will provide more timely financial reporting and forecasting and will enable improved financial management, governance, compliance and transparency, and a stronger overall financial control environment. The deployment of a single standardised financial and procurement system across the entire health sector will, for the first time, provide quality standardised financial and procurement information across both statutory and voluntary services, facilitating:

- valid comparison of costs across the entire sector
- a more equitable and evidence-based resource allocation model
- demonstration of VFM to support investment in service development
- leveraging full procurement capacity of the health sector by having quality data at a catalogue item level
- Position-level reporting of pay costs for more than 132k WTE (c. 85k WTE statutory and c. 47k WTE voluntary).

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Impacts on Project Schedule

In recognition of the extraordinary impact of the COVID-19 pandemic in early 2021 the IFMS project was temporarily suspended to alleviate any burden on the stakeholders who are vital to the success of the project. IFMS staff were in some cases re-deployed to assist in COVID-19 activities and reporting.

Work had recommenced in April 2021 but the project was further impacted by the cyber-attack in May 2021.

The draft IFMS delivery schedule will be refined as each phase of the project proceeds through detailed planning stages, overseen by the Finance Reform Programme Steering Group, in line with the approved governance process. This group is chaired by the Chief Financial Officer of the HSE, and the membership is comprised of relevant stakeholders.

IFMS Detailed Design Stage

Following engagement with Health System stakeholders through a series of design confirmation workshops, the detailed design for the IFMS was completed and was approved by IFMS Governance in July 2021. The completed design which is based on SAP best practice is aligned with the Financial Management Framework and is sufficiently flexible to accommodate future organisational changes in the Health System and its reporting requirements, such as those envisaged under Sláintecare. Following completion of the detailed design stage, the contract with the System Integrator was terminated by the HSE. A public procurement process is underway to procure a new System Integrator to build, test and deploy the approved IFMS design across the health system. The deployment plan will be finalised by the new System Integrator and confirmed during the build stage of the project and as part of detailed deployment planning to be approved by project governance. The proposed deployment approach aims to hold to the greatest extent possible the original project timelines so that by 2025 IFMS will have been deployed across all HSE directly run services as well as a number of voluntary providers accounting for 80% by expenditure of overall Health Services.

Deployment of IFMS in S.38 and larger S.39 organisations is a key enabler of Sláintecare, is mandated by the Finance Reform Board (Governing body involving HSE, DOH and DPER), and has been expressed as a Ministerial Priority in the HSE National Service Plan.

The shared services model underpinning IFMS is consistent with the Government mandate to expand and accelerate shared services in the Irish Public Service.

Stakeholder engagement, change management and pre-deployment activities

With the completion of the IFMS design, project teams have increased the focus on stakeholder engagement and change management activities in preparation for IFMS deployment. This preparation and change management activity is intended to assist with the transition to IFMS and optimise project timelines.

Alignment with Key Strategic Programmes

The IFMS project continues to work cross functionally with project teams from HR and Payroll on a number of strategically aligned initiatives. These include:

- Developing an end-to-end solution for pay budgeting and reporting which has been incorporated in to the overall IFMS design.

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- Alignment with the National integrated Staff Records and Pay (NiSRP) Programme, the single HR/Payroll system for Health which has also been developed on the SAP platform and is currently being rolled out nationally.

Financial Reporting and IFMS

The continued development and quality improvement of financial reporting pending the deployment of IFMS is an ongoing priority for the programme. Key 2021 activities in this area in 2021 and 2022 include:

- Technical upgrade and maintenance of stabilisation systems including SAP support pack upgrades.
- Development of reporting capability to track and report on new funding allocations, e.g. COVID-19 and vaccination programme.
- Ongoing engagement with key stakeholders to develop and align the current and future IFMS enterprise structure in light of new and evolving organisation structures and reporting requirements.

II. Compliance with Procurement Rules

The HSE estimates expenditure of approximately €4.2 billion in 2021 in relation to goods and services which are subject to procurement regulations that are set out in detail in the HSE's National Financial Regulations and underpinned by EU Directive 2014/24 and Public Procurement Guidelines for Goods and Services. In line with the revised code of practice for the governance of state bodies, and the public procurement policy framework, the HSE is required to ensure that all contracts are secured competitively in line with public procurement requirements and to report the levels of non-compliance identified.

The findings of the review of the effectiveness of the HSE's internal control system indicates that compliance with procurement regulations remains an issue for the HSE, in relation to lack of compliance with:

- Requirements to procure and source from valid contracts already in place.
- Requirements for market testing, tendering and utilising competitive processes.
- Requirements to report non-compliance as per DPER code and circulars

Further the review has also identified that there is a lack of awareness of various procurement supports such as the HSE's procurement contract information site www.hbspass.hse.ie which it is expected that all budget holders should be aware of and should utilise when procuring goods and services on the behalf of the HSE.

The HSE is undertaking a self-assessment review of its non-competitive spend >€20k for 2021. (In 2020 this review was based on spend >€25k and involved approximately 12k invoices).

The estimated total expenditure on invoices over €20k is in the order of €2.37 billion (involving approximately 36k invoices) which is 51 % of HSE procurable spend in 2021. All major budget holders are required to complete a self-assessment return to determine the level of non-competitive and non-compliant procurement.

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Self-assessed returns covered €2.066 billion (87+% of spend under review). The returns indicate that non-competitive procurement was in the region of 19% (€0.4 billion) and non-compliant procurement was in the region of 9% (€0.186 billion). When excluding COVID-19 specific expenditure the non-compliant rate is 16% equating to €0.144 billion.

The HSE is aware that there are limitations regarding the review as it currently does not capture expenditure below €20k. The HSE considers that it is probable that the actual non-compliance is higher particularly if the spend less than €20k was considered.

It should be noted that under Directive Articles 12, 32 and 72 there continue to be valid reasons for non-competitive procurement particularly in relation to the ongoing impact of the COVID19 pandemic in 2021.

A statistical sample of 292 returns totalling €0.444 billion was subject to a review carried out by an external independent firm of accountants engaged by the HSE to help verify the robustness of the returns made. This sample represented 19% of HSE expenditure of €2.370 billion. When returns were not submitted to the review team these were considered in the sample as non-complaint.

The findings of the independent review indicated a 94% compliance rate.

The HSE is aware that significant work is required to improve the level of non-competitive procurement.

HSE remains committed to progress a transformational programme of reform to support the Services in compliance with public procurement regulations and to increase the usage of contracts awarded by HSE and OGP. Additionally the HSE will need to work collaboratively with the Office of Government Procurement (OGP) to deliver a more extensive programme of compliant contracts for the health services. In the context of the HSE's current procurement systems and resourcing challenges it is acknowledged that it will take a number of years to fully address procurement compliance issues. However, in the interim HSE is in the process of developing and resourcing a structure to sustain and enhance the capability to drive multi annual procurement planning, compliance improvement and capacity development.

The HSE is currently in the process of preparing its Corporate Procurement Plan (2022-2024) which is a requirement of the Code of Practice for the Governance of State Bodies (2016).

The draft HSE Corporate Procurement Plan will focus on a number of key objectives summarised below under key headings:

Sourcing & Contracts;

- Coordinate and collaborate with all HSE organisations to agree a **Multi Annual Procurement Plan (MAPP)** aligned to the implementation of the HSE Corporate Procurement Plan by end Q2 2022. This will improve SME participation and increase and maintain HSE spend under management.
- Roll out of induction / training programme "Procurement for non-Procurement Officers" for Procurement and Finance professionals including Compliance Business Analysts across

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Hospital Groups, Community and Healthcare Organisations - Q3 2022 and ongoing refreshers thereafter.

- Implement a Central Assisted Sourcing Service by Q3 2022 to support publication of all tender opportunities >€25k on the Governments eTenders website www.eTenders.gov.ie consistent with Circular 10/2014 requirements.
- Develop a bespoke CPP / **Procurement Compliance Improvement Programme** to enable a consistent deployment and measurement across the HSE groups (CHOs, HGs, Corporate).
- Continue to support HSE Digital Transformation and Innovation, and Health Innovation Hub Ireland, to develop expertise and Standard Operating Procedures to enable optimum exploitation of the opportunities arising from pre-commercial and health innovation procurement initiatives. Q2 2022 ongoing.

Systems Development;

- As part of introducing an integrated finance and procurement system across the health service, the **Integrated Financial Management System (IFMS)** Project will appoint a new systems integrator (SI), validate design, build and test the standard system, and deploy the solution on a phased basis with a target of 80% of expenditure transacted on IFMS by Q2 2025.
- Continue to **digitally enable procurement processes** through continuous improvement practices and usage of technologies including the implementation of a single CRM system / Operating Model for Procurement Shared Services by Q4 2023.

Logistics and Inventory Development;

- Complete the rollout of the **National Distribution Centre (NDC)** to the remaining 6 locations across the statutory Hospitals within the HSE by Q3 2024
- Conduct a review by Q4 2023 on the future strategy/model development of the **National Distribution Service** to meet client requirements.

Organisational Development;

- Promote greater understanding of procurement regulations and individual obligations through the relaunch of the National Financial Regulations in Q3, 2022.
- Implement the Target Operating Model to support IFMS including: self-service procurement for purchases below €25,000; and Procurement Shared Services for strategic sourcing above €25,000.
- Agree the engagement model between HSE Procurement and HSE Clients, Section 38 and Section 39 agencies and the OGP commencing Q2 2022 with full engagement model fully implemented by Q4 2023.

Monitoring of the Corporate Procurement Plan

The monitoring of the Corporate Procurement Plan will be through an oversight group comprising HSE, the Department of Health and the Department of Public Expenditure and Reform.

The Audit and Risk Committee of the HSE Board will have a review and monitoring role in this regard.

III. Governance of Grants to Outside Agencies

In 2021 €5.7 billion of the HSE's total expenditure related to grants to outside agencies. The legal framework under which the HSE provides grant funding to agencies is set out in the *Health Act 2004*. Annually the HSE funds more than 2,200 agencies, ranging from the large voluntary hospitals in receipt of over €300 million to small community-based agencies in receipt of €500.

The HSE's governance framework is consistent with the management and accountability arrangements for grants from Exchequer funding as set out in the instruction issued by DPER in September 2014, with one sanctioned exception in respect of prefunding arrangements.

Due to the specific nature of the funding arrangements with the S38 and S39 agencies, the HSE must continue to ensure timely funding particularly in respect of contractual pay and staffing costs which account for up to 80% of expenditure.

Before entering any funding arrangement, the HSE determines the maximum amount of funding that it proposes to make available along with the level of service to be provided for that funding. For the larger agencies, cash is disbursed by the HSE's treasury unit based on agreed cash profiles.

The system of internal control operating in individual funded agencies is subject to review on a sample basis by Internal Audit.

The requirement to submit financial reports and staffing returns and to hold monitoring meetings is dependent on the size of the agency.

During 2021 there were weaknesses identified by the HSE's annual internal control review, via the Controls Assurance Review process, and Internal Audit reports particularly in the application of processes relating to monitoring and oversight of some agencies. The HSE has two types of contractual agreements with these agencies that are, in the main, tailored to reflect the level of funding in place.

- Service Arrangement (SA), health agencies in receipt of funding in excess of €250,000
- Grant Aid Agreement (GA), health agencies in receipt of funding of less than €250,000

External and internal audits have found that:

- Monitoring meetings may not be conducted at the frequency required in accordance with the HSE guidelines.
- There was a lack of evidence of the review of required financial performance data, such as management accounts and activity data.
- Contractual agreements relating to the provision of funding include a requirement for grantees to have appropriate risk management and governance arrangements in place and to comply with public procurement guidelines. Audits and Annual Compliance Statement (ACS) indicate some gaps in governance arrangements and the levels of compliance with procurement remains an issue.

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The steps being taken by the HSE in recent years to address the weaknesses identified are set out below. These initiatives have enabled the HSE, to a reasonable extent, to be satisfied that there are appropriate governance structures and procedures in place with these agencies.

It has to be noted that the impact of COVID-19 and the cyber-attack will have impacted on monitoring and review arrangements as staff were either re-deployed on COVID-19 responses or engaged in service restoration.

At the end of 2021, 86% of funding was covered by a completed SA/GA despite the challenges arising from the COVID-19 pandemic and the Cyber-attack.

Contract Management Support Units

In accordance with the HSE's Performance and Accountability Framework, the CEOs of the HGs and the Chief Officers of the CHOs are the accountable officers for their areas of responsibility. This responsibility extends to ensuring that Service Arrangements (SAs) and Grant Aid Agreements (GAs) are in place in respect of all funding which is released by the CHO to Section 38 and Section 39 agencies.

In relation to the discharge of these responsibilities, the HSE has established Contract Management Support Units (CMSUs) in each of the nine CHOs to assist service managers in managing and documenting all aspects of the relationship with S38 and S39 agencies.

These dedicated resources in the nine CHOs, where the majority of agencies are funded, provide an ongoing focus at local level in respect of the implementation of the Governance Framework. It should also be noted that in each CMSU there is at least one staff member with a professional financial qualification.

Among the key responsibilities of the CMSU are to ensure that:

- SAs and GAs are completed and finalised in a timely manner
- audited Annual Financial Statements (AFS) and Annual Financial Monitoring Returns (AFMR) are both received and reviewed;
- a system is in place in each CHO to ensure review meetings are taking place in accordance with performance monitoring guidelines
- that key documents such as the Chairperson's Statement, Management Accounts and Activity Data are received and reviewed as appropriate
- the Service Provider Governance (SPG) database is updated accurately.

It should be noted that the Compliance Unit works with each of the CMSU Managers so that any matters that emerge in relation to the above five matters are resolved in a standard manner.

In addition to the establishment of the CMSUs, the Compliance Unit issues monitoring reports on a twice-monthly basis to all accountable officers in respect of the completion of SAs/GAs and the receipt and review of AFSs/AFMRs. Furthermore, teleconferences are held and direct contact is made on a regular basis with representatives of the accountable officers, so as to ensure that all aspects of the Governance Framework are being implemented in CHOs.

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The following key areas are important in the context of corporate governance in these funded agencies.

Annual Compliance Statements (ACS)

All Providers who receive funding in excess of €3 million from the HSE are required to submit an ACS. The Providers self-certify retrospectively in respect of the corporate governance procedures maintained at Board and Executive level within their respective agencies in the previous calendar year. This process ascertains the level of corporate governance in existence and ensures that improvements in this regard are made where necessary.

Some of the larger Section 38 and Section 39 agencies have themselves used the outputs of the ACS, AFMR and the below-mentioned External Review processes to implement further initiatives to enhance their corporate governance at Board level. Specifically this has had positive impacts in key areas such as:

- Development of Internal Audit Functions
- Rotation of Board members
- Board Committee Structure
- Development of Codes of Conduct
- Procurement policies and practices
- Board Governance and Assurance
- Board Policies

Governance Reviews

Phase 2 of the Governance Reviews has commenced and it will ensure external review of governance at Board and Executive level will be undertaken in Section 38 agencies not reviewed in Phase 1 and a number of Section 39 Providers.

It should be noted that as a follow-up to the reports from Phase 2 reviews a process will again be established whereby the Boards of the relevant Providers will be required to submit updates on actions agreed in the reports in respect of these reviews.

Where Providers have raised specific corporate governance issues regarding their processes, the Compliance Unit works with such Providers to suggest and identify solutions.

IV. Information Communication Technology (ICT)

The Office of the Chief Information Officer (OoCIO) delivers and manages a range of ICT services throughout the HSE and in part of the voluntary acute sector.

The HSE consists of approximately 4,500 locations, including 45 acute hospitals. The HSE runs and manages the largest ICT estate within the state, there are over 4,200 servers, 9 petabytes of storage and 87,000 devices such as laptops and PCs and 26,000 mobile phones. The OoCIO provides support in this context. The HSE provide a wired network to 1274 and wireless access to the others.

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There are approximately 870 individual ICT projects of various sizes and scale currently being progressed, which are categorised into 3 broad areas, Foundational Infrastructure and Cyber Technology ((8 programmes), National Programmes (26 programmes) and HSE Transformation priorities (16 programmes). The OoCIO currently has 542 WTE staff and approximately a further 300 vacancies, a revenue budget of €126.6 million and a capital budget of €130 million.

Internal audits have identified weaknesses around security controls across parts of the domain including application password protocols and the management of secure access. Weaknesses have been acknowledged in some of the areas audited in disaster recovery protocols, particularly in relation to older and legacy systems. The OoCIO is committed to improving controls in respect of cyber security.

Cyber-attack May 2021

The HSE was subject to a serious cyber-attack of 2021 through the criminal infiltration of its IT systems, using Conti ransomware.

The HSE invoked its Critical Incident Process which resulted in the decision to switch off all HSE IT systems and to disconnect the National Healthcare Network from the internet to contain and assess the impact of the cyber- attack. This also served to limit the attacker's access to the HSE's IT environment.

This resulted in HSE staff in all areas losing access to HSE provided IT systems including patient, laboratory and clinical care systems. Non clinical systems such as payroll, procurement and financial systems were also unavailable and disaster recovery plans and processes were instigated. The National Cyber Security Centre recommended an external cyber security firm to assist the HSE to eradicate the ransomware and provide ongoing protection to the estate.

The HSE Board in conjunction with the CEO and Executive Management Team commissioned an Independent Post Incident Review which was undertaken by PWC and published on the 3 December 2021. (The Conti PIR report)

The PWC Report has highlighted a number of strategic recommendations and findings as below:

- Implement enhanced governance arrangements for IT and cybersecurity that will provide appropriate focus, attention and oversight. This recommendation envisages specific oversight of the Programme by the EMT and the Board.
- Appoint a Chief Technology and Transformation Office (CTTO) and office to lead the transformation programme that is required to future-fit the technology in this area.
- Appoint a Chief Information Security Officer (CISO) and establish a suitably resourced and skilled cybersecurity function.
- Implement a clinical and services continuity transformation programme to enhance operational preparedness and crisis management capabilities to encompass events such as this.

The CEO has established a sub-group of the EMT to oversee and lead the multi-year implementation of the Post Incident Review recommendations.

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Under the governance of this group, a High Level Plan has been developed and more detailed plans are being developed for each of the work-streams. An early deliverable of the Programme is the development of an investment case for eHealth, IT and Cyber-security transformation.

ICT Security Controls

Internal audits have identified weaknesses around security controls across parts of the domain including application password protocols and the management of secure access. Weaknesses have been acknowledged in some of the areas audited in disaster recovery protocols, particularly in relation to older and legacy systems. The OoCIO is committed to improving controls in respect of cyber security.

The CIO has created an eHealth SMT subgroup to drive specific ICT/Cyber improvements. A tactical “ICT Control Environment Improvement plan” is underway. This plan is implementing priority improvements as recommended by PWC, Mandiant and other partners in the Cyber space. This CTO led plan is funded from existing sources namely:

- ehealth & ICT Capital plan 2022
- eHealth Opex funding (NSP 2022/Cyber)

The plan has already achieved significant includes “hardening” of our servers, implementation of new password policies, multi-factor authentication at key access points, removed the pre-existing “AD trusts” with voluntary organisations, and more.

ICT Policies

A review of all ICT policies has commenced and will be complete in Q2 2022 as part of eHealth Security Control Improvement plan. Following this review and the likely updating of some policies, OoCIO management intends to conduct a compliance exercise to assess and baseline the level of compliance with these policies. This compliance assessment will inform what further actions then need

Key Activities

The OoCIO has several multi-year programmes underway to drive improvements across our large domain. These include Windows 7 refresh programme, the single sign-on programme, other key infrastructure upgrades, and the upgrading of application software which will, over time, provide a means for the following:

- Single logon to domains and applications which ensures that all staff have unique and safe access to the domains and applications.
- Single email platform to improve cross regional communication and collaboration.
- Upgrade infrastructure with modern security features.
- Upgrade applications and database technology

Migration to a single digital identity for staff has commenced and will continue to be rolled out during 2022 across CHOs, Hospital Groups and HBS, as well as central divisions.

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The OoCIO also has plans to improve resourcing to ensure that staff with the right blend of technology skills, are situated where needed most.

Windows 10 Patch management for high/critical patches is operational across our desktop estate with a high level of compliance across regions.

OoCIO management has initiated an “Infrastructure Migration Programme” which will migrate selected disaster recovery environments to the cloud. The initial stages of this programme will in turn inform a Cloud services procurement to be commenced later this year. That procurement will include provision for disaster recoveries for all systems.

OoCIO cloud for disaster recovery initiative has moved on significantly, with the following activities underpinning the organisations ambition to leverage Cloud for disaster recovery:

- Cloud Framework completed with 4 successful bidders
- OoCIO have completed a pilot of a hybrid on-premise/Cloud VMware environment which will enable the seamless migration of systems to the Cloud.
- Disaster Recovery has been built in the Cloud for one of our critical services (Healthlink)
- Azure network hub in pilot for key programmes. This is the ‘central station’ for secure, resilient Cloud Network connectivity

Other Disaster Recovery Supporting activity:

- Core Network Resilience Testing scheduled for Q1, 2021
- National Backup policy has been agreed and published on the HSE intranet
- Disaster recovery Test of CHI Evolve system was successfully executed

Further, the Internal Audit function in collaboration with external specialist ICT audit support will continue to conduct targeted audits on a risk management basis.

The current cyber-attack further supports the requirement that the HSE will require additional investment in its ICT systems to protect against future threats and attacks.

V. Risk Management

As detailed in sections 2 and 3 earlier, the HSE recognises the importance of a strong Risk Management Framework. Despite the impact of the COVID-19 pandemic and the cyber-attack significant activity has taken place during 2021 to monitor existing risks continue to bring about improvements to the overall area of risk management in the HSE. While there has been significant progress centrally within the HSE, there is still work that is required to be completed in order to embed a strong culture of risk management across the wider organisation.

Improving Risk Management Process

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In November 2021 the HSE Board approved the assignment of the Chief Risk Officer role to the National Director, Governance and Risk. The CRO has full access to and involvement in key planning and other processes where consideration of risk is a central element.

The Corporate Risk Support Team (CRST) is well established and comprises a Chair who is currently the National Director, Governance and Risk. Membership of the CRST comprises senior staff representing each EMT member.

This team reviews the Corporate Risks identified and meets on a monthly basis.

During late 2020 and early 2021 the HSE Board and EMT jointly commissioned the services of an external expert to review the HSE's corporate risk management process. This was intended to enable the development of a series of sustainable and focused interventions to improve risk management capability.

The report found a very high number of good practices already in place with the HSE including:

- The HSE has a strong Board that champions the importance of good risk management and supported by the Audit and Risk Committee provides the necessary guidance and challenge to the Executive in the risk management process it has adopted.
- The EMT has adopted a more agile approach to providing monthly assurance and oversight of the HSE's key operational risks.
- The HSE has developed an Integrated Risk Management Policy that is based on the ISO 31000 risk management standard.
- The HSE has formed a CRST to support the EMT and to manage corporate risks.

The report has also provided a number of recommendations which are in various stages of progress and these include:

- The appointment of a suitably senior Chief Risk Officer
- Fast tracking the recruitment of the staff required to create a fully functional and multi-disciplinary team to accelerate the embedding of risk management processes
- The implementation of an Enterprise Risk Management IT solution (Risk Information system (RIS))
- Articulating the HSE's risk appetite
- Ensure sufficient training across all levels of HSE management to ensure that the consideration of risk is a core competency in the organisation

Progress has been made with addressing these recommendations including:

- The appointment of a suitably senior Chief Risk Officer
- The HSE has successfully recruited a multi-disciplinary risk team, incorporating a General Manager and seven Grade VIII risk leads to support the CRST leads. These roles are embedded in each EMT division.
- The recruitment for the Assistant National Director of Risk is at an advanced stage and the role is expected to be filled in early quarter 3 2022.

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- The implementation of a Risk Information System with the State Claims Agency.
- Board approval of the HSE's Risk Appetite Statement.

One of the early priorities for the incoming multi-disciplinary risk management team will be the development and delivery of training and enhanced communications in relation to risk.

Corporate Risk Register

At the end of 2021 there were 27 risks on the CRR. Each of the risks on the Corporate Risk Register is assigned to a member of the EMT as 'owner' of that risk and each of the risks has been allocated to one of the four committees of the Board by the Audit and Risk Committee (ARC). Board Committees provide oversight for the management of risks assigned to them and scrutinise these risks and associated action plans with the relevant members of the EMT.

In November 2021 the Board also reviewed and approved the HSE's current Corporate Risk Register. The Board is supported by the ARC and other Board Committees who report the findings of their reviews of risk to the Board.

The HSE assesses the Corporate Risk Register and risk reports in the process of developing its Corporate Plan, National Service Plan (NSP) and annual Budget. The risk management process is intended to ensure principal risks are identified, prioritised, managed, monitored and reported consistently at national level. Corporate Risks are reviewed by the EMT and feed into the Board and ARC wider discussions. All Corporate Risks and associated action plans are reviewed by the EMT as part of either a monthly or quarterly review process depending on the nature of the risk.

Board Committee risk oversight

In 2020 a revised risk oversight process was introduced between the EMT and the Committees of the Board. The ARC who retains oversight of the overall Risk Framework has assigned individual corporate risks to the relevant Board Committee for oversight. Guidance for Board Committees has been developed and EMT members attend committee meetings to report on risks for which they are the owners.

VI. High Earners Review

The HSE is required by the Code of Practice for the Governance of State Bodies 2016 to disclose details related to the number of employees whose total employment benefits (including basic pay, allowances, overtime, night-duty, weekends, on-call and arrears excluding employer PRSI and employer pension costs) for the reporting period fell within each band of €10,000 from €60,000 upward. This disclosure is shown in Note 7 of the Annual Financial Statements for 2021.

As part of its work-plan Internal Audit conducted assurance work in this area in order to provide assurance over:

- The number of people on the High Earners List

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- The appropriateness of payments to these persons in accordance with Government Guidelines and Pay Policy
- The correctness of the figures as reported in Note 7 of the financial statements

The work included a detailed review of all employees whose earnings were in the pay band of €300k and higher. All of the employees who were within the scope of the assurance work are HSE Consultant Clinicians.

Internal Audit's review identified some instances where payments made to these Consultants were inconsistent with policy. The review also identified potential internal control gaps around payments made to these Consultants under local hospital arrangements.

The remuneration of the CEO is fully consistent with pay policy and is detailed in note 2 of the financial statements.

At the time of writing, the CEO has established a review process under the direction of the HSE's Chief Operating Officer (COO) tasked with setting in place a process to examine the findings and recommendations of this audit which is expected to be completed by the end of Q2 2022. This may give rise to additional assurance work during 2022.

VII. Payroll Controls

The findings of the HSE's review of the effectiveness of the system of internal control noted potential weakness in the operation of controls in this key area particularly in local payroll operations outside of the shared services model. Some of the concerns raised were:

- Lack of segregation of duties in some HSE areas
- Gaps in management oversight or hierarchical controls
- Inconsistent reviews in relation to the review of divisional personnel reporting
- Lack of evidence in relation to key payroll and HR controls

The HSE has been rolling out a National Integrated Staff Records and Pay Programme (NiSRP) since mid-2019. The purpose of NiSRP is to implement a single HR/Staff Records technical platform for national coverage of all people related data for the HSE using SAP HR. It also covers the implementation of one Payroll technical platform for all HSE employees using SAP Payroll. It will allow for the automation of appropriate staff processes through the introduction of Employee and Manager self-service.

Currently NiSRP has been rolled out in the HSE East and South East and is currently in various stages of rollout in the Midlands, North West and Midwest at the time of writing.

The full rollout of NiSRP will mitigate the risk of payroll fraud and irregularity through workflow automation, inbuilt system controls and process standardisation.

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The HSE's National Financial Division are co-ordinating a 3-year control improvement programme as noted earlier. As part of this an information bulletin will be issued to all divisions of the HSE providing support, clarification, and advice as to what constitutes a good payroll controls environment.

15. Conclusion

The report on the Review of Effectiveness of the System of Internal Control in the HSE has been considered by the HSE's Audit and Risk Committee who have provided advice on same on behalf of the Board.

The HSE is an organisation undergoing significant change whilst continuing to deal with the on-going impact that COVID-19 has had on HSE service delivery. The HSE must also manage the impact of the 2021 cyber-attack on the HSE and the wider Health System. The HSE's control systems still rely on the legacy financial systems of the former health bodies it replaced. These legacy systems will be replaced on a phased basis with a single national integrated financial and procurement system as detailed earlier in section 12.

The review of the system of internal control indicates that there are limitations and weaknesses observed in the HSE's system of internal controls. However, where these weaknesses have been observed there is some evidence of mitigation and/or management action plans that have been undertaken to reduce the risk exposure, sufficient to support the adoption of the Annual Financial Statements. These weaknesses taken in conjunction with the overall 2021 limited audit opinion issued by the National Director of Internal Audit mean that the review can only provide limited assurance in respect of the system of internal control.

The HSE acknowledges that there is a requirement to improve overall levels of compliance with the system of internal control, and this is receiving senior management attention, however, it is encouraging to note that the 2021 review indicates a continued growing awareness of the importance of improved accountability and responsibility at all levels of HSE staff, and stronger engagement with the controls assurance process for 2021.

The Board acknowledges that it has overall responsibility for the system of internal control within the HSE and will continue to monitor and support further development of controls. Progress will be reassessed in the 2022 Review of the Effectiveness of the System of Internal Control.

Ciarán Devane

Chairperson of the HSE Board