Report by the Comptroller and Auditor General to the Northern Ireland Assembly

Department of Health 2020-21

Introduction

1. This report highlights significant matters arising from my audit of the Department of Health's (DoH) annual report and accounts for 2020-21 and the audits of the HSC Trusts. The Department of Health and the Trusts have recognised liabilities in their financial statements of more than £135 million. I consider there to be sufficient uncertainty regarding the timing and amount of these liabilities for them to be classified as provisions under the definitions in International Accounting Standard (IAS) 37, "Provisions, Contingent Liabilities and Contingent Assets."

2. IAS 37 states that a provision should be recognised when there is *a present obligation resulting from a past event, payment is expected and there is uncertainty over its timing or amount*. There is no specific definition of an accrual in International Financial Reporting Standards. Accruals are recorded in the accounts as a current liability as there is little, or no, uncertainty over the timing or amount of the transaction creating the obligation. The only outstanding element should be the receipt of the invoice for goods received or services delivered.

3. I have not qualified my audit opinions on the financial statements of DoH or the Trusts, except for the Northern Ireland Ambulance Service, as otherwise the matter is beneath the levels of materiality for the accounts. Nevertheless, I believe it to be of sufficient importance to be drawn to the attention of the NI Assembly.

4. By applying this accounting treatment, DoH was able to utilise funds in the current financial year within its budget that would otherwise have been redistributed to other departments or returned to the Treasury.

The Department of Health

5. In January 2021, the Minister of Health directed that a payment of £500 be made to all Health and Social Care staff who had worked for at least a month between March 2020 and January 2021 as a recognition of the contribution made during the COVID pandemic. In April, a further direction was made to increase this amount with the aim of ensuring that staff who are basic rate taxpayers would receive £500 after deductions.

6. When the direction was made, there were varying levels of certainty around the number of staff who would be eligible and therefore around the costs of the scheme. Whilst the numbers of qualifying staff employed by HSC organisations was known, the Department had little information in relation to staff numbers of those in the independent sector.

7. Given the direction to make this payment, it is not disputed that a liability exists. However, the area of doubt relates to the quantification of the liability. The element with the greatest uncertainty relates to staff in the independent sector.

8. The evidence suggests that there remains considerable uncertainty around the number of staff who would be eligible to receive this payment. Almost three quarters of the liability was calculated on the basis of headcount, rather than as Full Time Equivalents. This will have the effect of increasing the amount that has been accrued for. There is no way of calculating the overall impact of this approach.

9. Furthermore, in calculating its potential liability the Department increased its estimates of the numbers of eligible staff in the independent sector "by a safety margin". This equated to a 25 per cent increase across the independent sector staff which is not based on evidence, but rather as a margin of error. This had the effect of increasing the accrual by £6.9m.

10. In addition to the amounts included to fund the payments to staff, the Department also included an accrual for an amount of £6.5 million in relation to administration costs. These are costs that the Department anticipates incurring in operating the scheme. These costs have been calculated as a simple percentage of the overall scheme costs. No evidence has been provided to me to support these calculations. Furthermore, administration costs should only be accrued as they are incurred and consequently, it is not appropriate to accrue for this expense.

11. IAS 37 defines a provision as a liability of uncertain timing or amount. Given the uncertainties in the Department's estimate of this liability, I believe that it meets the definition of a provision rather than an accrual.

The Health and Social Care Trusts

12. I have qualified the 2020-21 accounts of the Northern Ireland Ambulance Service (NIAS) and reported on the basis of the treatment of a liability in relation to holiday pay. Although all Trusts adopted the same accounting treatment under the Department's advice, the accrual of £4 million is material to the auditor's opinion for NIAS's financial statements when considered in the context of total operating expenditure. The overall effect of treating holiday pay liabilities across all HSC Trusts as accruals rather than provisions is that the HSC retained significant sums from its 2020-21 DEL budget allocation, rather than surrendering it for use by other departments or returning it to the Treasury. This ensures that the funds are secured for future expenditure rather than having to bid for them again in the coming year.

13. This is not the only example of such advice by the DoH. It has also required Trusts to accrue for clinical excellence payroll liabilities over the last 4 years, which currently remain unpaid. Under IAS 37, these accruals should also have been disclosed as provisions.

Summary of findings

14. My audit work has identified a number of examples within the Department and the HSC Trusts in which an inappropriate accounting treatment has been adopted. Disclosing items as accruals which should properly have been treated as provisions instead, has the effect of securing funds from existing budgets for future payments. This treatment is not in line with International Accounting Standards nor with budgetary guidance from the Department of Finance.[1]

The Department of Health's response

15. The Department told me that it has prepared its accounts on what it assessed to be the appropriate accounting treatment and that it accepts that its opinion on the correct treatment differs from that of the NIAO in an area that is both technical and a matter of accounting judgement.

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[1] Department of Finance - *Supply Estimates in Northern Ireland: Guidance Manual July 2020*

16. Where advice has been provided to the Trusts on the appropriate accounting treatment for liabilities, the Department has advised me that this has been done in consultation and agreement with the Finance Directors of the Trusts. They have also consulted with the Department of Finance where appropriate.

17. The Department has also assured me that should these liabilities remain outstanding at 31 March 2022 it will revisit the accounting treatment applied to ensure that it remains content that it is appropriate.

Conclusions

18. I am concerned by the number of examples of the Department of Health and the wider HSC sector applying an accounting treatment for liabilities that does not meet the Department of Finance's budgetary guidance or International Accounting Standards. The Department contends that this does not represent an attempt to circumvent DoF budgetary guidance in order to retain funds and I have no evidence that this is the case. Nevertheless, the effect is to retain a significant amount of funding, more than £135 million, within the HSC sector that would otherwise have been re-distributed within the Northern Ireland funding bloc or returned to the Treasury.

19. I intend to monitor the situation in the coming months and I expect to see a payment of these retained funds before 31 March 2022.