

## Audit and Governance Committee paper

How this paper relates to our strategy	Setting standards <input type="checkbox"/>	Increasing and informing choice <input type="checkbox"/>	Demonstrating efficiency, economy and value <input checked="" type="checkbox"/>
<b>Paper title</b>	<b>High Level Risk Register 2014-2015</b>		
<b>Agenda item</b>	<b>9a</b>		
<b>Paper number</b>	[AGC (01/10/14) 426 PR]		
<b>Meeting date</b>	1 October 2014		
<b>Author</b>	Paula Robinson, Head of Business Planning		
<b>For information or decision?</b>	Information and comment		
<b>Recommendation</b>	The Committee is asked to note the latest edition of the risk register, and to comment on the revised risks, ratings and controls.		
<b>Resource implications</b>	No direct resource implications.		
<b>Implementation</b>	Continually in progress.		
<b>Communication</b>	Quarterly review by CMG and AGC; Authority last commented on the risk register at its May meeting. The last CMG review was in September.		
<b>Organisational risk</b>	Medium.		
<b>Annexes</b>	Annex A - High Level Risk Register 2014/15.		

The HFEA's High Level Risk Register will be published on the HFEA website after a time delay of twelve months, as specified in the HFEA's policy on the publication of Authority and Committee papers.

## Audit and Governance Committee

<b>Paper Title:</b>	Implementation of Audit Recommendations – Progress Report
<b>Paper Number :</b>	[AGC (01/10/14) 427 SG]
<b>Agenda Item:</b>	10b
<b>Meeting Date:</b>	01 October 2014
<b>Author:</b>	Wilhelmina Crown
<b>For information or decision?</b>	Decision
<b>Resource Implications:</b>	As noted in the enclosed summary of outstanding audit recommendations
<b>Communication</b>	CMG
<b>Organisational Risk</b>	As noted in the enclosed summary
<b>Recommendation to the Committee:</b>	AGC is requested to review the enclosed progress update and to comment as appropriate.

Annexes	Status / Actions	Summary of outstanding Recommendations		
		2011/12 & 2012/13	2013/14	Total
Internal – <i>DH Internal Audit</i>	<i>To complete</i>	2	9	11
	<i>Complete</i>	1	3	4
External Auditor – <i>NAO</i>	<i>To complete</i>	-	2	2
	<i>Complete</i>	-	5	5
<b>COUNT</b>		<b>3</b>	<b>19</b>	<b>22</b>

## **1. Report**

- 1.1.** This report presents an update to the audit recommendations paper presented to this committee in June 2014.
- 1.2.** Eighteen new recommendations (*with 26 actions*) have been added since the last meeting of this Committee. Eleven recommendations are from the internal audits covering Risk Management, Corporate Governance and the McCracken & Francis reports. The remaining seven are from NAO following their audit of our Annual Report & Accounts.
- 1.3.** Recent updates received from Action Managers are recorded under a September heading in this document.
- 1.4.** Nine recommendations are noted as completed and the remaining 13 are in hand.
- 1.5.** The remaining outstanding recommendations are classified as (M) or (L) as low. None is classified as high.
- 1.6.** Progress with the implementation of the remaining outstanding audit recommendations will be provided to future meetings of this committee and to CMG on a quarterly basis.

## **2. Recommendation**

AGC is requested to review the enclosed summary of recommendations and updated management responses and to advise whether they have any comments or queries in respect of them.

Recommendations from DH Internal Audit

2011-12

2011 - 12	Title	Section	Findings	Grade	Risk / Implication	Recommendation	Management Response	Action Manager	Date
2011-12	Review of Supplier Maintenance	1	<p><b>Guidance for Supplier Maintenance:</b> Documentary guidance exists which sets out the financial authorities and responsibilities over procurement, purchasing and payment for goods and services. However, some of the detailed guidance needs to be updated. The HFEA Ordering and Payment Procedures are based on the Barclays Business Master system, which has been replaced by the Barclays Internet Banking system. The HFEA Financial Reporting Procedures do not reflect the current suite of management accounting reports.</p>	L		<p>HFEA Ordering and Payment Procedures should be updated to reflect the use of the Barclays Internet Banking system. HFEA Financial Reporting Procedures should be updated to reflect the current suite of management accounting reports.</p>	<p>Agreed. The Financial Procedures will be updated to reflect this and other recommendations arising from this audit, and also updates to the Authority's Fraud and Anti-Theft Policy.</p> <p><b>June 2012 update:</b> The finance procedures have been revised in draft and presented to CMG. Recommendations from the meeting are due to be incorporated and finance training arranged for staff new to their financial responsibilities / who would like a refresher.</p> <p><b>September 2012 update:</b> The Financial Procedures – the main document setting out procedures and processes for all staff – have been updated and are on the intranet. Revisions include reference to the Fraud and Anti-Theft Policy; changes in staffing; and enhancement of T&amp;S information in line with DH policy. The detailed procedures in use by only the finance team have been substantially updated. The banking procedures refer to Barclays Internet banking. Some detailed procedures remain to be updated, it is anticipated this will be completed by end October.</p> <p><b>November 2012 update:</b> The finance SOP on the HFEA's Ordering and Payment of goods and services has been updated to reflect the use of Barclays Internet Banking. The imminent delivery of the SAGE 200 project will radical transform the financial system and processes currently in place. It is therefore recommended that all other documents are reviewed after the new system is introduced.</p> <p><b>March 2013 update:</b> The Sage 200 project is underway. The financial procedures and finance team SOPs will be subject to material revisions to reflect the forthcoming (1 April 2013) introduction of WAP (to facilitate online processing of purchase orders to payment).</p> <p><b>June 2013 update:</b> Pending resolution of the technical problems with the new WAP system the revisions to the financial procedures were also delayed. The WAP system went live on 3rd June and revised summary financial procedures are to be presented to this meeting. Some of the individual detailed procedures will be completed subsequently.</p> <p><b>Aug 2013 update:</b> Delayed due to finance team restructuring. In addition, an annual review of the existing suppliers database will be written into the standard operating finance documentations which is planned to be completed by November 2013</p> <p><b>Nov 2013 update</b> Now expected in Dec 2013</p> <p><b>Feb 2014 update</b> A review of time and availability resources has necessitated moing this piece of work back in Q1 of 2014-15. This rrecommendations relates to the updating of SOP's which are internal to finance staff only.</p> <p><b>May 2014 update</b> Awaiting completion by Director of Finance and Facilities Internal audit planned in Q1 2014/15 to update this recommendation</p> <p><b>September 2014 Update</b> Finance policies and SOPs to be updated.</p>	Head of Finance	<p>Apr-12</p> <p>Jul-12</p> <p>Oct-12</p> <p>May-13</p> <p>March / April 2013</p> <p>Jul-13</p> <p>Nov-13</p> <p>Dec-13</p> <p>Apr-14</p> <p>Jun-14</p> <p>Dec-14</p>
	Data	4	<p><b>Information Asset Register</b> A number of policies are in place that relate to the management of information, including: · Information Classification and Retention; · Records Management; and</p>	L	<p>Polices related to information management may be applied without consideration of the security</p>	<p>Management should review the policies related to information management to consider whether those policies require linking to the IAR.</p>	<p><b>1. This is a good suggestion which we will progress during 2012.</b></p> <p><b>November 2012 update</b> In progress, a meeting has been arranged to initiate changes.</p> <p><b>March 2013 update:</b></p>	Director of Finance / SIRO	<p>Nov-12</p> <p>Dec-12</p> <p>May-13</p>

Recommendations from DH Internal Audit

2011-12

2011 - 12	Title	Section	Findings	Grade	Risk / Implication	Recommendation	Management Response	Action Manager	Date
	o n f i d e n t i a l i t y		Information Access. These policies do not reference HFEA's Information Asset Register (IAR) which is used to apply a security classification to information assets. HFEA use different security classifications to define the controls which are to be applied to data sets.		classifications documented in the IAR.		The OGSIRO has recently issued documents relevant to risk appetite and security for information assets. This needs to be taken account of in the review, which has been delayed.  <b>June 2013 update:</b> Work delayed <b>Nov 2013 update</b> Now expected in Dec 2013 <b>Feb 14 update -</b> due to workload pressures, this has been delayed again. It is now firmly scheduled to be completed end March 2014 <b>May 14 update</b> Policies to be updated after IfQ changes - discussion to take place by end June 2014 to see if interim update possible <b>September 2014 Update</b> These policies form part of the Information Governance toolkit and are currently being reviewed. It is anticipated that the reviews will be completed by November 2014.	Head of IT	Sep-13 Dec-13 Apr-14 Dec-14 November-14
2012 - 13	Title	Section	Findings	Grade	Risk / Implication	Recommendation	Management Response	Action Manager	Date
2 0 1 2 - 1 3	I T  P r o j e c t s	4	<u>Reporting on IT resources</u>  Due to the size of the IT team, developer resources cannot always be dedicated to projects. Often incidents will occur or change requests may be made which are considered to be critical. IT will then decide whether development on projects should be delayed to address those incidents.  This is done in consultation with project sponsors and managers but not in line with a formal process, and it was commented to us during the review that it is not always clear to stakeholders who had been involved in making those decisions.  With a formal process in place IT may not always be best placed to prioritise use of its own resources, and may not sufficiently consult the wider business when making decisions  In larger organisations this role would be performed by a Change Board, or in line with defined policies and procedures around assessing the criticality of incidents and change requests.	L	Stakeholder expectations may not be met if projects are delayed and they have not been informed and consulted on those delays	We acknowledge that it may not be practical to implement a Change Board or defined policies around assessing the criticality of incidents.  Management can however take steps to increase the transparency around the management of IT resources. We recommend that reports are produced and communicated to project stakeholders and HFEA Directors on a regular basis. The reports should detail the planned activities for that period and reflect on the progress made in the previous period, and detail any reasons for interruptions.	Agreed. Small scale change requests are routed to Programme Board, we assume that this refers to more significant changes and we shall sharpen the process around these  <b>Aug 2013 update:</b> Programme Board (PB) can and does deal with project-related 'change requests' and 'exception reports', but with a focus on delivery of that project. PB is not responsible for resource allocation across all our project and non-project work. CMG (or, if no meeting of CMG is imminent, SMT) is responsible for prioritisation and resources. We will need to consider how day-to-day management of potential IT resource diversions could be improved via CMG/SMT, and whether a mechanism can be agreed that is responsive enough in practice, i.e. that does not depend on scheduling an item for a future meeting date that may be some way off. This will require significant Sponsor/Director level commitment since speedy decisions will be needed if an incident arises that requires immediate attention.  <b>Nov 2013 &amp; Feb 2014 update -</b> No progress due to preparations for IfQ, drop in other project activity and pending re-organisation involving IT <b>September 2014 Update</b> IT resources now deployed on IfQ (routine change has ceased) and reported on through management of that programme. <b>Recommendation Complete</b>	Director of Finance with Head of IT & Head of Business Planning  Director of Compliance and Information	Jul-13 Dec-13 Jun-14 Complete

2013 - 14	Title	Section	Findings	Grade	Risk / Implication	Recommendation	Management Response	Action Manager	Date
P C W	P A Y P E N S E S &	1	<p><b>Arrangements for verification of mileage claims</b></p> <p>There are no formalised arrangements for verification of expense claims relating to mileage. Individuals will submit claims for miles travelled that have to be authorised by line-managers in the normal way, but there are no arrangements for ensuring that claims are sufficiently detailed to identify start and end locations of journeys and individual mileages and to verify that these distances are reasonable on a sample basis.</p> <p>We were informed by management that introducing this type of control is something that they are looking to do in the near future</p>	M	Individuals could inflate the number of miles they are claiming to have travelled, thereby resulting in financial loss to the Authority	Management should devise a control process whereby all mileage claims are suitably detailed and then a sample of journeys checked for reasonableness. The existence of such a process has a deterrent effect, which may mean that testing can be on only a small sample of claims	<p>Agreed (since the introduction of WAP). Testing for an upgrade to the WAP system with google map features is imminent and will help when it is rolled out.</p> <p><b>February update</b></p> <p>Due to workload pressure, testing is delayed to April 2014 and roll out will be May 2014</p> <p><b>May update</b></p> <p>Due to workload pressure, testing is delayed to June 2014 and roll out will be July 2014</p> <p><b>September 2014 Update</b></p> <p>WAP testing continues and new queries were recently raised with Sicon. It is anticipated that depending on Sicon's availability when testing is completed, that the upgraded system will be rolled out before the end of September</p>	Finance & Accounting Manager	<p>December-13</p> <p>May-14</p> <p>July-14</p> <p>end Sept / Oct 14</p>
		1	<p><b>The Authority does not have a formalised risk management strategy, policy or procedures</b></p> <p>The Authority has not documented a risk management strategy, policy or procedures. Information on areas such as risk appetite and the objectives of risk management are only set out within the Annual Governance Statement (AGS). Typically organisations will define a risk management strategy and framework and ISO 31000 "Risk Management – Principles and Guidelines" describes having a framework for implementing risk management. Related guidance from the Institute of Risk Management, The Public Risk Management Association and Association of Insurance and Risk Managers talks about an organisation describing its framework for supporting risk management by way of the risk architecture, strategy and protocols. This is seen as a way of communicating on risk issues and setting out the roles and responsibilities of the individuals and committees that support the process. The risk strategy should also set out the objectives that risk management activities in the organisation are seeking to achieve and the protocols and procedures by which the strategy will be implemented and risks managed.</p> <p>In practice, HFEA has a continuous process of monitoring and managing risk, and there is a structure of oversight and review in operation. However, the Head of Business Planning has a key role in driving these processes, including briefing new staff, determining tolerances for individual risks in the context of the overall statements in the AGS and monitoring top operational risks to identify any that need to be escalated to the HLRR. These conclusions are then subject to a degree of later review at CMG,</p>	M	<p>Reviewing the AGS may not effectively incorporate an appropriate review of the organisation's risk management appetite and strategy.</p> <p>In the absence of a formal strategy policies, procedures and risk management processes may not be clearly and consistently applied across the organisation, exposing the Authority to risks above its risk tolerance.</p> <p>In the event of a change in personnel, the process may be at greater risk of not continuing to operate satisfactorily.</p>	The Authority should formalise a Risk Management Strategy, Policy and procedures that builds on the content of the AGS and provides guidance on the application of risk management across the Authority.	<p><b>Finding accepted. Draft Risk Management Policy to June 2014 AGC</b></p> <p><b>September 2014 Update</b></p> <p>An advanced draft of the strategy went as planned to June AGC. Further work will follow over the next few months as we proceed to review our risk register in light of the new Strategy agreed at July Authority.</p> <p><b>Plus any subsequent actions - to be completed by December 2014</b></p>	HoBP	<p>June 2014</p> <p>Complete</p> <p>December-14</p>

2013 - 14	Title	Section	Findings	Grade	Risk / Implication	Recommendation	Management Response	Action Manager	Date
		2	<p><b>Risks are significantly summarised within the HLRR and the supporting Assurance Framework has yet to be prepared</b></p> <p>We noted that the risks within the HLRR are summarised to a significant degree with a large number of contributory factors. For example:</p> <ul style="list-style-type: none"> <li>The risk around decision making quality has a number of causes including decision-making apparatus, representation and appeals processes, workload pressures, governance transition programme and business/admin processes, practices and behaviours. Business/admin processes, practices and behaviours itself then refers to document management, risk and incident management, data security and finance processes.</li> <li>The statutory and operational systems and delivery risk relates to operational delivery and business continuity being hampered by unreliability in, or excessive demand on, key statutory and infrastructure systems. Causes are reliability of a range of IT and non-IT systems, excessive demand on various processes, data integrity, records accuracy and behaviours.</li> </ul> <p>Whilst we can see how the underlying factors draw together into the overall risk, at this summarised level it becomes more difficult to evidence the alignment of controls and assurances against the overall risk. Each risk has a series of controls identified, but they are not directly aligned to each underlying cause of the overall risk and if every control in the organisation relevant to possible factors impacting the risk were listed the HLRR would be unmanageable. In some organisations, many of these causes and underlying controls would appear as risks within a risk management system in their own right, and of course in HFEA a number will be within the operational risk registers.</p> <p>However, we believe that what this highlights is the need for development of an Assurance Framework, as management have identified, that would sit behind the risk register and provide a more detailed level of information on individual controls, risk mitigations and sources of assurance within the business.</p>	M	The HLRR may not provide sufficient detail to ensure that controls to address the broad nature of identified risks are adequate and that there is sufficient assurance over the continued, satisfactory operation of those controls	As intended, an Assurance Framework should be developed showing the alignment of controls, mitigating actions and sources of assurance relating to the risk of breakdown in areas underlying the high level risks.	<p><b>Accepted in part. We will need to approach this finding in a proportionate and manageable way. Our proposed actions are:</b></p> <ol style="list-style-type: none"> <li>To review our operational risk system to ensure it is being used fully and consistently across the organisation – the aim being to ensure operational risk is managed in a coherent and comparable way between all teams. This will help our overall risk assurance. Head of Business Planning to start on this following Corporate Strategy work. For completion by the scheduled CMG review 11/ 14</li> <li>Revise the High Level Risk Register template to make more apparent the linkages and lines of sight between causes/sources of risks and the corresponding controls. Head of Business Planning – part of AGC paper for 06/14</li> </ol> <p><b>September 2014 Update</b> Most of this work will form part of the post-Strategy review of the whole content and lay-out of the risk register, but efforts have already been made to make the lines of sight more obvious, as indicated above.</p> <ol style="list-style-type: none"> <li>Explanation of whole current risk system (all levels) to June AGC, for clarity (particularly for the newer members / attendees who will not be aware of all aspects of our risk management system). Head of Business Planning to work with CMG and members to consider this between 07/14 &amp; 01/15</li> <li>Regarding the composite nature of our strategic risks, we will consider whether to break these down into smaller components when we review the high level risk register following the setting of our new strategy. (However, for the time being we are satisfied that the composite approach is sufficient and effective at the strategic risk level.) Head of Business Planning to work with CMG to assess usefulness and possibilities of RAM, inc resource implications To agree our approach by 12/2014</li> <li>Risk Assurance Mapping – we will consider what other small organisations do, and review whether it would be worthwhile and feasible for the Authority to adopt a similar approach. Meanwhile, some of our other planned actions, listed in this report, will increase the amount of risk assurance built into our existing risk management processes.</li> </ol>	HoBP	<p>February-15</p> <p>June-14</p> <p>Complete</p> <p>January-15</p> <p>December-14</p>



2013 - 14	Title	Section	Findings	Grade	Risk / Implication	Recommendation	Management Response	Action Manager	Date
							<p><b>September 2014 Update</b> Via a useful DH Risk Assurance Network meeting in July (the first one of an ongoing series), we have made a useful contact at the CCQ, who are also considering how to introduce risk assurance in a manageable and proportionate way. It is likely that we will be able to adopt some of their methodology, which they are kindly sharing with us as they continue to develop it. This work will be considered following the more urgent work to align all of our planning, performance measurement and risk documentation to the new strategy, and will form part of the future review of our operational risk management system (since the same managers will be central to assurance mapping).</p>		Complete
			<b>3 Setting of tolerance for risk generally and for individual risks</b>	M					
			The Authority has stated that its tolerance for risk is medium. However, there is no direct linkage between this and individual risk tolerances. Tolerances for individual risks are determined by the Head of Business Planning as high, medium or low based on her general perspective and understanding of the business, and against the overall policy of the Authority that HFEA has an attitude to risk that is "proportionate and balanced" and an appetite that is "medium". These individual risk tolerances are then part of the information reviewed by CMG, AGC and the Authority. We also noted that the tolerance for the risk "Achieving organisational change alongside effective resource management" is stated in the HLRR as "high" notwithstanding the overall medium risk appetite.		There may be difficulty interpreting the Authority's risk tolerance into practical levels that determine whether to tolerate or take action on individual risks. Whilst practically there is a high level of review of actions against risks, it is still more difficult to articulate the link between the stated Authority tolerance and its application in practice. As a result, risks in excess of the Authority's tolerance may be accepted.	The Authority should consider whether it can refine its statement of risk tolerance by setting tolerance levels for key types of risk in terms of risk scores, for example licensing, regulation, provision of information etc.	<p><b>Accepted to some extent. The general point can be addressed in a proportionate way through the planned written policy (see response to rec. 1 above). This will include an explanation of our overall attitude to risk, our approach to setting individual risk tolerance levels (as opposed to overall organisational risk appetite), and an explanation of the roles of the Head of Business Planning, other Heads and Directors, and CMG, in relation to the setting of risk appetite and risk tolerances. It will also describe the practical limitations that exist in relation to setting meaningful numerical tolerance limits in relation to the areas suggested. We believe that this will usually not be applicable owing to the nature of the risks we encounter. NB: For information, since the ALB review period of uncertainty ended, we have lowered our overall risk appetite, as an organisation, from 'medium' to 'low'.</b></p> <p><b>September 2014 Update</b> This was addressed in the paper to June AGC describing the current risk system, and will be wrapped into further work on the policy.</p>	HoBP	<p>The approach June 2014 AGC paper (see rec. 1 response).</p> <p><b>December-14</b></p>
			<b>4 High Level Risk Register does not explicitly assign timescales to future actions or predict the likely residual risk once they are completed</b>	L					
			The High Level Risk Register contains a good level of detail on individual risks, including the causes and effects, current controls, tolerability and further controls required. We see this as good practice and beyond the level of detail that many organisations include. The same applies to having assigned individual risk tolerances. However, we also noted that there is no timescale explicitly attached to completing the identified actions by which risks will be reduced, nor any clear prediction of the expected residual risk once the actions have been taken or at a point in the future (e.g. by financial year end). Some organisations have incorporated such details into their risk registers in order to provide a clearer view of future expectations and to allow closer monitoring of the delivery of required actions.		Lack of clarity over timescales and the impact of identified actions may make it more difficult to monitor timely completion and to identify at an early stage whether the actions being taken are adequate.	Consider the benefits of including target completion dates for planned actions and an estimate of future residual risk once the actions are completed within the HLRR.	<p><b>Part accepted. We think there is value in adding target completion dates for planned actions. But estimating the impact on residual risk of each control seems disproportionate. Head of Business Planning to add target completion dates for each planned control when the risk register is next reviewed by CMG following the publication of our new strategy.</b></p> <p><b>September 2014 Update</b> The work to review the High Level Risk Register in line with the new Strategy is beginning now, and we will incorporate completion dates where relevant from that point on (and, where we already know such dates, some can be added immediately, ready for the next full CMG review on 10 September).</p>	HoBP	<p>Target date: August 2014.</p> <p><b>October-14</b></p>



2013 - 14	Title	Section	Findings	Grade	Risk / Implication	Recommendation	Management Response	Action Manager	Date	
CORPORATE GOVERNANCE		1	<b>The Authority receives only a verbal update from committee chairs on the business undertaken by committees</b>	L						
			The Authority receives feedback on the activities of committees through verbal updates by the relevant chairs at the next Authority meeting. However, minutes of the meetings of committees are not circulated and whilst the verbal update is helpful in providing context and understanding of the work of committees it does mean that members of the Authority have no opportunity to consider matters discussed in advance of meetings to identify any questions. We also noted that on occasion committees can be dealing with sensitive matters that may subsequently appear in the press, and there is no formal mechanism for communicating such matters prior to the next meeting of the Authority, which could be after external reporting.		Authority members may not have a full understanding of the activities of committees, or may not have time to identify questions. Members may not be aware of key decisions taken in committees before they are reported in the press.	Consider circulating minutes from committee meetings for information as part of Authority papers to members, in addition to the verbal updates. Consider whether there would be any merit in having an additional communication channel for any key decisions likely to have significant external coverage.	Head of Governance and Licensing (HoGL) to feed into annual review of committees, and take members' views on whether they would appreciate this approach, or have ideas for additional communication channels.	HoGL	Autumn 2014, with implementation in new year if agreed by members.	
		2	<b>Some governance information on the website needs updating</b>	M						
			We noted that there are a number of governance items on the HFEA website that appear to require updating: <ul style="list-style-type: none"> <li>In the "About HFEA" section the link to provisions of the 1990 Act as amended by the 2008 Act (<a href="http://www.dh.gov.uk/en/Publicationsandstatistics/Legislation/Actsandbills/DH080211">www.dh.gov.uk/en/Publicationsandstatistics/Legislation/Actsandbills/DH080211</a>) does not work, that legislation page seemingly having been archived, and the About HFEA section also still refers to having 22 members;</li> <li>The section on Equality and Diversity refers to new guidance to public bodies due to be issued in 2010 and goes on to say that the Authority intends to overhaul and update its approach to equality issues as part of its preparation for the commencement of the new public sector duty, and makes mention of having considered an initial preliminary assessment at the open public meeting in Cardiff on 8th December 2010; and</li> <li>On the website the "Our Public Events" sub sections are for the 2008 and 2009 Annual Conferences.</li> </ul>		Users of the website may be confused by out of date information.  Reputation may be impaired as a result of the perception of lack of attention to the quality of  There may be a perception that the Authority has not paid sufficient attention to its equality and diversity objectives.	Review the website and update any information that is out of date. In particular, update the equality and diversity section.  Implement a mechanism for regular testing for broken links to third party information.	Equality policy being refreshed in summer 2014, with updated documentation to go on website. Other website changes being factored into IfQ programme.  Website <b>September 2014 Update</b> All sections apart from the Equality and Diversity section of the website have now been fixed. The Equality and Diversity section has been delayed due to IFQ	Equalities – HoGL  IfQ Programme Manager transferred to Director of Strategy and Corporate Affairs	Equalities – by October 2014.  On implementation of IfQ programme  <b>March-15</b>	
		3	<b>There is no up to date register of policies and policies on counter-fraud and whistleblowing are overdue for review.</b>	M						
			We noted that per Standing Orders the Authority should maintain a register of policies for the purpose of monitoring the need for review and updating. However, we were unable to obtain such a register. We obtained copies of the policies for Counter-fraud and Whistleblowing and noted that these were respectively dated July 2010 and May 2012 despite containing references to being subject to annual review.		Policies may no longer be appropriate to current operations and/or reflect latest best practice.	A register of policies indicating the owner and scheduled date for review should be maintained and monitored to ensure timely review of all policies.  The Counter-Fraud and Whistleblowing policies should be reviewed and updated if necessary.	HoGL to create and maintain register of policies.  <b>September 2014 Update</b> Register created and policies that need to be updated will be prioritised and scheduled, in discussion with policy owners.  Head of Finance to update Counter-fraud policy. <b>September 2014 Update</b> Finance policies and SOPs to be updated.  Head of HR to update Whistleblowing policy. Whistleblowing policy updated already by Head of HR and communicated to all staff, awaiting sign-off expected.  <b>September 2014 Update</b> SMT agreed have agreed an updated policy. A paper of the updated policy was presented to the Staff Forum and CMG in September and to AGC in December.	HoGL  HoF  HoHR	May-14  <b>December-14</b>  July-14  <b>December-14</b> May-14  <b>December-14</b>	

2013 - 14	Title	Section	Findings	Grade	Risk / Implication	Recommendation	Management Response	Action Manager	Date
		4	<b>There are no formalised succession planning or induction arrangements and there is likely to be more change in members in the future than in recent years</b>	L					
			<p>We understand that there are no formalised arrangements for succession planning and induction of new members. It is likely that there will be more change in membership in the future which raises the question of whether there should be succession planning to ensure that there is some continuity within all committees. In addition, consideration could be given to whether members should be able to serve their full terms on one committee, or if some rotation to introduce fresh perspective may be appropriate in certain circumstances.</p> <p>We are aware that induction has been undertaken, for example members observing a clinic inspection, but in light of possibly more significant change going forwards more formalised planning for induction may be appropriate. There is currently no induction pack of information nor any plans for the activities that should be undertaken as part of induction. This could also extend to thinking about induction to committees where new members may be asked to input to decisions on matters that are quite complex.</p>		<p>Key knowledge or experience may be lost through changes to membership.</p> <p>Whilst an element of change may be beneficial, normal timescales and flow of business may be interrupted in the event of significant change whilst new members find their feet.</p> <p>The experience of new members joining the Authority may not be wholly positive.</p>	<p>Formally consider the implications of forthcoming changes in membership and develop succession, handover or induction arrangements as appropriate.</p> <p>An information pack for new members with specific additions if necessary for those joining particular committees plus a plan/timetable for meetings with key staff and the opportunity to attend clinic events may help both expedite induction and create a positive experience for new members.</p>	<p><b>Chief Executive (CEX) has begun liaising with DH reps regarding recruitment of two new members, following appointment of new Chair.</b></p> <p><b>HoGL to run recruitment process and any revision of committee membership, steered by Chair. New members and any changes to committee structure to be in place by September 2014</b></p> <p><b>HoGL and Head of HR to create induction pack and programme for new members.</b></p> <p><b>Induction pack/programme to be ready on appointment.</b></p> <p><b>September 2014 Update</b> Interviews for new members occurring in August 2014. Appointments expected by end September 2014. Induction pack/programme to be ready on appointment.</p>	HoGL	<p>September 2014.</p> <p>December-14</p>
		5	<b>Only approving minutes at the next committee meeting may occasionally cause long delay in publication</b>	L					
			<p>The meeting of the Ethics and Standards Committee scheduled for 6 November 2013 was cancelled. The minutes of the previous meeting on 4 September were due to be approved at that meeting but as there has not been a subsequent meeting at the time of preparing this report in late February 2014 no minutes have been published for the September meeting.</p>		<p>Visibility of discussions and conclusions may be impeded by delay in making details public.</p>	<p>Where there will otherwise be a significant delay in publication of minutes, consider whether it may be possible to approve them outside of a formal meeting to allow earlier publication.</p>	<p><b>HoGL to make provision in committee SOPs to allow for minutes to be signed off on schedule in cases where meetings are cancelled/delayed.</b></p> <p><b>May update</b> Work to be completed by end of June</p> <p><b>September 2014 Update</b> Committee secretaries aware to circulate minutes in advance of next meeting, in cases where next meeting is some time away.</p> <p><b>Recommendation Complete</b></p>	HoGL	<p>April-14</p> <p>June-14 Complete</p>
	M c c r a c k e n  a n d  F r a n c i s	1	<b>The planned progress report to the Authority in respect of actions following on from the Francis Report has not been received by the Authority.</b>	M					
			<p>The Authority considered a paper on the relevance of the recommendations contained within the Francis Report to the HFEA and the actions to be taken in those relevant areas at its meeting in March 2013. It was stated that a progress report would be presented to the Authority in November 2013, but this has not happened.</p>		<p>Whilst we can see that many of the actions have been progressing and in a number of cases papers on particular areas have been considered by the Authority, the lack of formal reporting of progress means a lack of visibility of overall progress against the action plan and the Authority has not formally had the opportunity to review and challenge the pace of developments or whether the actions underway continue to represent all those that are</p> <p>Progress is less visible externally as a result of not having published a paper within the Minutes of Meeting or separately.</p>	<p>A progress report summarising key steps taken in response to the recommendations contained within the Francis report judged relevant to the HFEA should be presented to, and reviewed by, the Authority.</p> <p>Management should consider whether within the progress report timescales for any of the actions or milestones towards them should be defined to assist with monitoring progress.</p> <p>Whilst we recognise the focus on the themes, management should also consider whether in particular areas as policies or processes are developed those working on those changes should revisit the detailed recommendations in the Francis Report. This might be relevant to the area of the Report concerned with the Effectiveness of</p>	<p><b>Progress against relevant actions will be summarised for the Authority.</b></p> <p><b>September 2014 Update:</b> This actions is now complete. It is disproportionate to report to Authority on the basis that all the issues identified have been considered by Authority or by the Authority's Ethics and Standards Committee. The report considered by Authority ion March 2013 identified six areas where the Authority would wish to consider potential action.</p> <p>1) Putting the patient first: This included giving patients' views more prominence in inspection and within Choose a Fertility Clinic (CaFC); further that we put more onus on the impact of information provided to donors and the donor-conceived as a result of treatment. Inspections now routinely include the results of interviews with patients; CaFC is being overhauled as part of the IfQ Programme - with the results of user research confirming that patients want to see the experiences of other patients more prominently. We are committed to this. And earlier this year, the Authority approved a 'pilot' programme whereby the HFEA can offer (through an approved third-party supplier) counselling support to applicants expressing concern on the</p>	CEO	<p>TBC</p> <p>Complete</p>

2013 - 14	Title	Section	Findings	Grade	Risk / Implication	Recommendation	Management Response	Action Manager	Date	
r e p o r t s					Lack of a clear summary may be taken to demonstrate a lack of focus on the issues raised in the original report, notwithstanding other evidence of the developments being made.	Healthcare Standards.	<p>1)Outstanding support to applicants expressing concern on the emotional impact of information.</p> <p>2) Healthcare Standards: This looked at our role as regards close working with other regulatory bodies notably the Care Quality Commission and MHRA. We have formally taken over the functions of CQC where there was overlap as regards the regulation of ART clinics. This exercise was extensive was implemented successful as measured by an evaluation exercise. We have also concluded a set of meetings leading to an understanding and information sharing protocol with MHRA.</p> <p>3)Effective complaints handling: Our consideration of patient complaints was considered by Ethics and Standards Committee this September and further evaluation and working with clinics to better understand their patient complaints is underway.</p> <p>4)Openness, transparency and candour: This action largely related to our work as regards clinic incidents. A major report on three=years' of incidents was published in July this year. <a href="http://www.hfea.gov.uk/9017.html">http://www.hfea.gov.uk/9017.html</a></p> <p>5) Leadership: We did not propose taking any action here, which the Authority approved.</p> <p>6) Information: A range of actions were proposed here, relating to our arrangements for clinics submitting treatment data to us and changes to CaFC. All actions here are captured within our IfQ</p> <p><b>Recommendation Complete</b></p>			
		2	<b>A paper on review of the Complaints handling process has yet to be presented to Ethics and Standards Committee.</b>	M						
				<p>In response to the theme in the Francis Report concerning effective complaints handling it was agreed to review during the year the overall arrangements for dealing with complaints and to bring forward the outputs and recommendations to the Ethics and Standards Committee.</p> <p>At the time of the audit, the Ethics and Standards Committee has not considered any papers on this subject.</p> <p>We recognise that there are clear policies in place for handling complaints, and that the Authority's responsibility for considering any complaints concerning Centres is defined within legislation. However, as agreed by the Authority there is still merit in reviewing whether there is scope to improve processes in light of the issues identified at Mid Staffordshire NHS Foundation Trust.</p>		Opportunities to improve the handling of complaints may not be identified and acted upon. This could impact reputation and experience of those making complaints and the subject of complaints.	The proposed review and report on complaints processes should be taken to Ethics and Standards Committee.	<p><b>Agreed. Paper to be presented to Ethics and Standards Committee.</b></p> <p><b>September 2014 Update</b></p> <p>A report of the review of complaints handling is being considered at Ethics and Standards Committee on 3 September 2014. This item is closed.</p> <p><b>Recommendation Complete</b></p>	Director of Compliance	TBC          <b>Complete</b>
N A O	A n n u a l  R e p o r t	1	<b>Provisions and contingent liabilities</b>	M						
			<p>Testing of the Provisions note in the accounts identified multiple issues relating to the provisions disclosure and the note requires full redrafting</p> <p>a) Two non-material prior period errors were identified; mis-classification between utilised and released provisions; and the impact of provision movements on the I&amp;E.</p> <p>b) In the current year, we identified mis-classification between provision 'released' and provision 'utilised' in relation to the provision for Restructure costs.</p> <p>c) The calculation of the impact of provision movements on the I&amp;E was incorrect, considering only amounts provided in period (omitting amounts released).</p> <p>d) It was discovered that two contingent liabilities should be disclosed in the accounts.</p>		<p>We recommend that management review of the Accounts for next year is informed by the lessons learnt from this year so that sufficient time and resource can be built in to aid the Accounts production and review process.</p> <p>The completeness of disclosure of Provisions and Contingent Liabilities should be considered and new cases disclosed where there is the possibility of an outflow of resources as per IAS 37.</p>	<p><b>Agreed. We will ensure accounts production and review takes account of lessons learned</b></p> <p><b>The contingent liabilities arose on 27 and 28 May and have been included in the final version of the accounts.</b></p> <p><b>September 2014 update</b></p> <p>Lessons learned meeting in August 2014 will inform 2014/15.</p> <p><b>Recommendation Complete</b></p>	HoF	<b>Complete</b>		

2013 - 14	Title	Section	Findings	Grade	Risk / Implication	Recommendation	Management Response	Action Manager	Date	
Accounts	&	2	<b>Asset Valuations</b>	M						
			We noted that HFEA had responded to our Interim Audit findings: a full review has been carried out of the Fixed Asset Register (resulting in a rationalisation of the register and disposal of assets no longer in use); IFQ expenditure has also been reviewed; and useful economic lives of all classes of assets had been reviewed.  However, in applying FREM 6.2.5 and IAS 16, reporting entities should ensure all tangible non-current assets shall be carried at valuation at the reporting period. This is not currently the case at HFEA, and while it is accepted that the impact may be immaterial on the accounts, HFEA need to ensure that this is considered. Note that we are currently awaiting confirmation that this is immaterial.			HFEA should ensure their non-current asset register is reviewed on a periodic basis, given that their review in 2013-14 found assets no longer in use at an original cost of c.£200k.  The IFQ project should be reviewed periodically next year as expenditure increases to ensure that revenue and capital expenditure continue to be appropriately distinguished.	<b>Agreed</b> <u>September 2014 update</u> Asset review planned to inform year end. IFQ expenditure reviewed in depth quarterly <u>Recommendation Complete</u>	HoF	Complete	
		3	<b>Accruals and cut off</b>	M						
			Testing of accruals identified two accruals with a joint value of £50,000 which were unsupported and unnecessary. This error has been limited to the business area in which the accruals were made, of which the total value of accruals was £78,775.78. This also impacts on 'Fees and Related Costs' (as highlighted subsequently by HFEA finance).			HFEA Finance should ensure accruals are supported by evidence that there is an obligation to pay at the end of the reporting period. Where this information is provided by other teams within the organisation, finance should obtain evidence to assure themselves that they are raising accruals for the correct amounts in the right years	<b>Agreed. Finance will review accruals raised by other teams, in particular at year end</b> <u>September 2014 update</u> Finance reviews accruals monthly, paying particular attention to legal accruals (which had the over accruals). In addition further training has been done for WAP, Q and A sessions delivered to teams and quarterly budget meetings are held with budget managers. <u>Recommendation Complete</u>	F&AM	Complete	
		4	<b>Annual Report</b>	L						
			Whilst the requirements of the Companies Act 2006 as interpreted by the FReM had broadly been addressed within the Annual Report, there were a minor number of disclosures missing (such as references to current strategy and 2013/14 business plan). The required headings of 'Directors' Report' and 'Strategic Report' do not appear anywhere in the Annual Report. There were minor inconsistencies in the Financial Review.			HFEA should consider the drafting of their 2014-15 Annual Report to ensure that the headings of Strategic Report and Directors' Report are included and that these sections of the report are fully compliant with Chapter 4A and 5 of Part 15 of the Companies Act 2006 and Schedule 7 of SI 2008 No 410 as required by the FReM.	<b>HFEA has made the minimum required changes for 2013/14.</b> <u>September 2014 update</u> Lessons learned includes reference to FReM and other guidance, to ensure 2014/15 reports compliant. <u>Recommendation Complete</u>	HoBP & HoF	Complete	
		5	<b>Remuneration Report</b>	L						
			As with the Annual Report, whilst the requirements of the Companies Act 2006 as interpreted by the FReM had broadly been addressed, there were a minor number of disclosures missing or that required amendment. Total employer pension contributions for HFEA as a whole were also inaccurate			HFEA should obtain up-to-date declarations of interest for the Senior Management Team (who are disclosed in the Remuneration Report) as they do for Non-Executives	<u>September 2014 update</u> Update planned for November 2014, with requirement to notify changes as they occur.	HoF	November-14	
		6	<b>Intra-Government balances</b>	L						
		Significant discrepancies were identified in the categorisation of intra-government balances. The disclosures in the latest draft Accounts have now been corrected			Finance should review categorisation of suppliers and customers to ensure that this corresponds with the information reported in the DH Consolidation return	<u>September 2014 update</u> Comparison will take place when DH request future consolidations	HoF	January-15		
	7	<b>Cash</b>	L							
		Our audit of cash and cash equivalents at interim identified a number of weaknesses around the controls process for cash reconciliations carried out in year. Testing of the year end bank reconciliation was completed successfully, apart from the identification of credit card balances being netted off from cash which resulted in an understatement in year-end cash balances of c.£3,000.			HFEA should ensure that in-year bank reconciliations are performed for every month in 2014/15 and that reconciling items are followed up in subsequent months. Credit card balances should not be netted off from cash balances.	<u>September 2014 update</u> Monthly reconciliations in place. Aware of different types of balances and these are now treated properly. <u>Recommendation Complete</u>	HoF	Complete		

Human Fertilisation and Embryology Authority

# Audit planning report on the 2014/15 financial statement audit

REPORT TO THOSE CHARGED WITH GOVERNANCE  
October 2014

<http://www.nao.org.uk/>



# Contents

We have pleasure in setting out details of our proposed financial statement audit approach for the Human Fertilisation and Embryology Authority for the year ending 31 March 2015.

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<b>When do we plan to complete this work – timetable and fee</b>	<b>5</b>
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We have prepared this report for HFEA's sole use, although you may also share it with the Department of Health. You must not disclose it to any other third party, quote or refer to it, without our written consent and we assume no responsibility to any other person.



# Financial statement audit plan

## What work will we complete?

Our audit, which will be conducted in accordance with International Standards on Auditing (UK and Ireland) (ISAs (UK and Ireland)), will enable the C&AG to give an opinion on the financial statements.

Further details of the scope of the audit, as well as our respective responsibilities in relation to this engagement, have been set out in our Letter of Understanding which has previously been provided to the audit committee.

# How are we going to conduct the audit?

## Risk based approach

We plan our audit of the financial statements to respond to the risks of material<sup>(1)</sup>:

- misstatement to transactions and balances; and
- irregular transactions.

The Auditing Standard ISA240 states that there is a risk in all entities that management override controls to perpetrate fraud. There is also a presumed risk of fraud arising through revenue recognition. Other than these risks we have not identified any other significant financial statement risks.

In addition to these significant risks we have also identified some 'risk factors' i.e. risks that are not expected to represent a material misstatement in year but we would like to keep in view in our audit work;

- Accounting treatment for the IfQ capital expenditure project;
- Sharing of senior finance staff with HTA resulting in a reduced capacity.

Further details of these risks and our response are set out at Appendix 1.

## Our team

The details of the key audit staff who will complete this audit are:

Kate Mathers; Portfolio Director

Catherine Hepburn; overall responsibility for the audit

Nicholas Todd; responsibility for management of the audit

Malini Sampat; will lead the on-site work

<sup>[1]</sup> A matter is material if its omission or misstatement would reasonably influence the decisions of users of the financial statements. The assessment of what is material is a matter of the auditor's professional judgement and includes consideration of both the amount and the nature of the misstatement. Further information on materiality is included on page 7

# When do we plan to complete this work?

## Timetable

The timetable comprises two interim visits, each one week long, on weeks commencing 9/02/15 and 16/03/15 and a final visit commencing 11/05/14 with certification planned for late June. Further details are provided in the table below:

Date	Activity
September 2014	<b>Planning:</b> review HFEA's operations, assess risk for our audit and evaluate the control framework.
February 2015	<b>Interim audit work:</b> Review of management accounts and disclosures; work on IfQ & income.
March 2015	<b>Interim audit work:</b> Detailed testing of account transactions and balances.
May 2015	<b>Receipt of 1<sup>st</sup> draft account</b>
May 2015	<b>Final audit work:</b> account review, completion of audit testing.
June 2015	<b>Audit Completion Report:</b> present the results of our audit.
June 2015	<b>Certification:</b> seek representations and C&AG issues opinion.

## Fees

We aim to hold our fee at £27,500.

Completion of our audit in line with the timetable and fee is dependent upon HFEA:

- delivering a complete Annual Report and Accounts of sufficient quality that have been subject to appropriate internal review on the date agreed;
- delivering good quality supporting evidence and explanations within the agreed timetable; and
- making appropriate staff available during the audit.

If significant issues arise and we are required to perform additional work which would result in a change in our fee, we will discuss this with you as soon as possible.

# Addressing the key issues

## Providing effective regulation:

- As the UK's independent regulator of treatment using eggs and sperm, and of treatment and research involving human embryos, HFEA need to encourage consistently high quality standards of treatment and research in the sector;
- At a time when demand and expectation for healthcare is rising, but funding remains flat, it is crucial that HFEA demonstrates to both clinics and the Department of Health that it delivers efficiency, economy and value;
- Ineffective regulation would put the safety of patients and patient data at risk, and be damaging to the reputation of HFEA.



## How we will add value:

- Our audit work on intangible assets will provide assurance over the accounting treatments applied to the Information for Quality programme;
- Our audit work on Licence Fee income provides assurance that reported income from fertility clinics is accurate and complete;
- Our role as statutory auditor of other regulators within the Department, including the Human Tissue Authority and the Health Research Authority allows us to identify common themes and make recommendations to drive best practice;
- We issue several factsheets and toolkits to promote governance best practice – some of our work in this area is summarised in Appendix 3.

# Our audit approach

## Our assessment of materiality

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### **Materiality**

The concept of materiality recognises that financial statements are rarely absolutely correct, and that an audit is designed to provide reasonable, rather than absolute, assurance that the financial statements are free from material misstatement or irregularity.

For the purposes of determining whether the financial statements are free from material misstatement or irregularity we consider whether:

1. the magnitude of misstatement; or
2. the nature and cause of misstatements (e.g. because of the sensitivity of specific disclosure or regularity requirements)

would influence the users of the accounts.

In line with generally accepted practice, we have set our quantitative materiality threshold for the organisation as approximately 2% of gross expenditure, which equates to £100,000.

Other elements of the financial statements that we consider to be more sensitive to users of the accounts will be assessed using a lower qualitative materiality threshold. These elements include the remuneration report disclosures; the losses and special payments note and our audit fee.

We apply the concept of materiality in planning and performing our audit and in evaluating the effect of misstatements on our audit and on the financial statements. As the audit progresses our assessment of both quantitative and qualitative materiality may change.

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### **Error reporting threshold**

For reporting purposes, we will treat any misstatements below £1,500 as “trivial” and therefore not requiring consideration by the Audit Committee.

Please note that this is a separate threshold to our consideration of materiality as described above. It is materiality, not the error reporting threshold, which is used in forming our audit opinion.

# Our audit approach

## Other matters

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**Independence** We comply with relevant ethical requirements regarding independence and have developed important safeguards and procedures in order to ensure our independence and objectivity.

Information on NAO quality standards and independence can be found on the NAO website: <http://www.nao.org.uk/about-us/role-2/what-we-do/audit-quality/audit-quality/>

We will reconfirm our independence and objectivity to the Audit Committee following the completion of the audit.

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**Management  
of personal  
data**

During the course of our audit we have access to personal data to support our audit testing.

We have established processes to hold this data securely within encrypted files and to destroy it where relevant at the conclusion of our audit. We confirm that we have discharged those responsibilities communicated to you in the NAO's Statement on Management of Personal Data at the NAO.

The statement on the Management of Personal Data is on the NAO website:

[http://www.nao.org.uk/freedom-of-information/wp-content/uploads/sites/13/2013/05/data\\_protection\\_review.pdf](http://www.nao.org.uk/freedom-of-information/wp-content/uploads/sites/13/2013/05/data_protection_review.pdf)

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**Using the  
work of  
internal audit**

We liaise closely with internal audit through the audit process and seek to take assurance from their work where their objectives cover areas of joint interest and where it is efficient to do so.

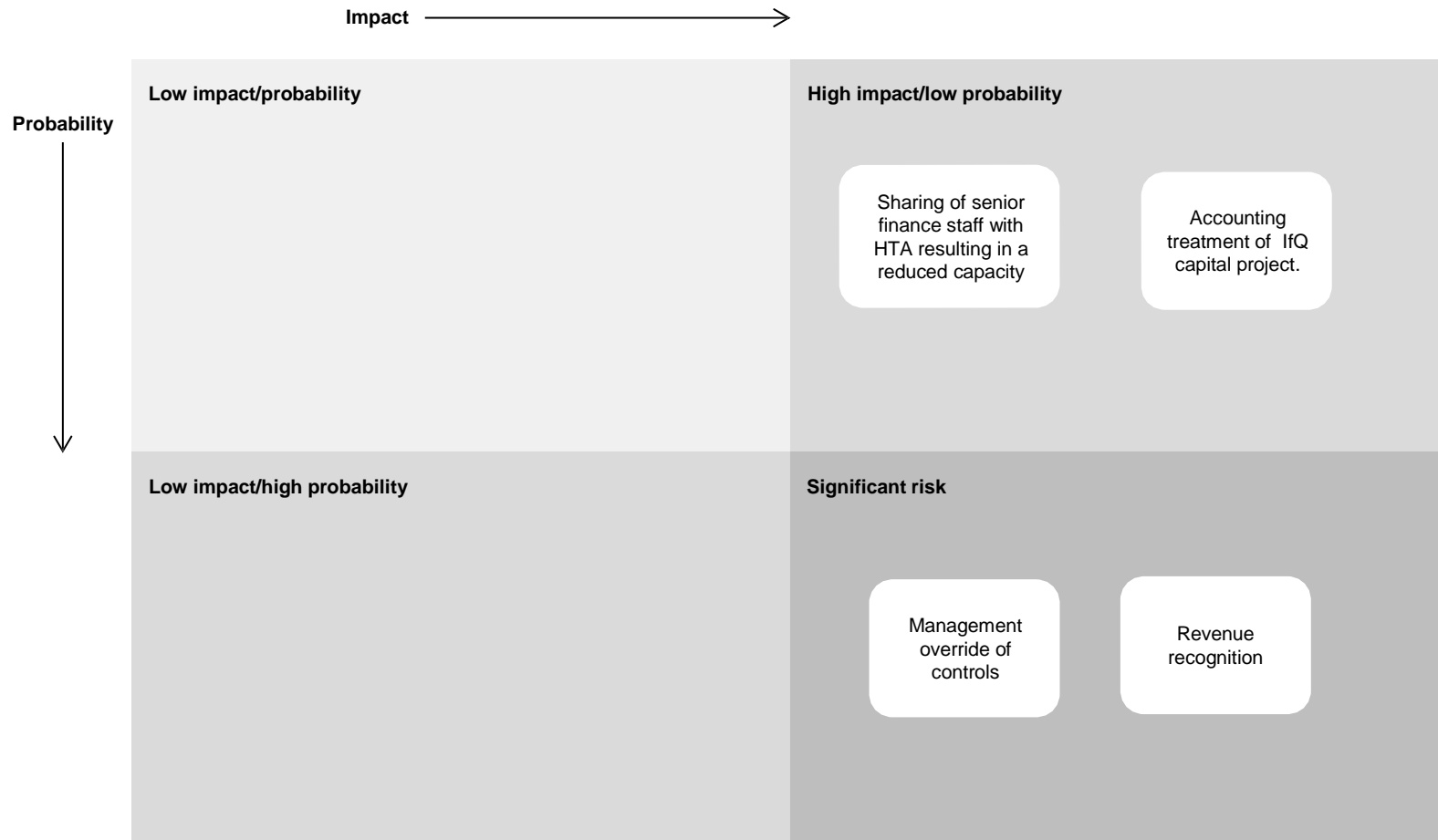
Following our review of internal audit's plans we will consider the terms of reference of the planned report on the Information for Quality programme.

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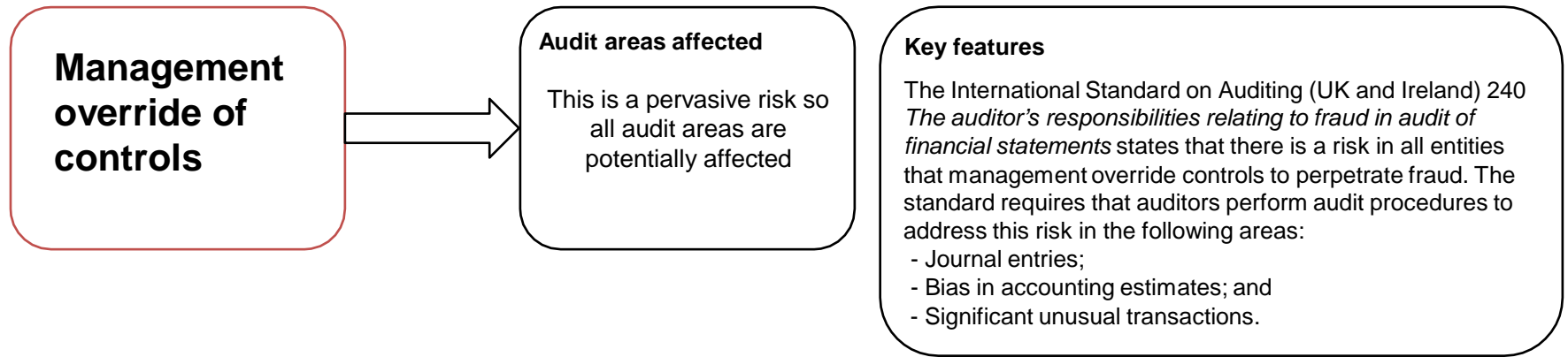


# Appendix 1: Significant financial statement risk

We plan our audit of the financial statements to respond to the risks of material misstatement and material irregularity. We are required to perform additional audit work for the most significant risks. Our assessment of the level of risk for the particular issues we consider relevant to the financial statements is shown below.



# Appendix 1: Significant financial statement risks



## Change from prior year

No change in level of risk from 2013/14.



## Audit response

### Controls

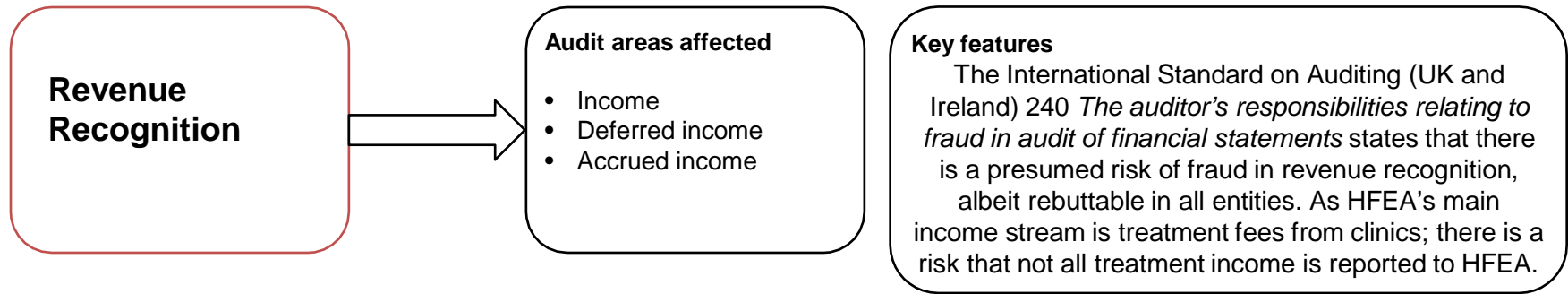
Given the nature of the risk, we will not be looking to place reliance on controls.

### Emphasis of testing

### Substantive

- Review of significant transactions
- Journal sample testing
- Performing analytical procedures on accounting estimates (e.g. provisions and impairments).

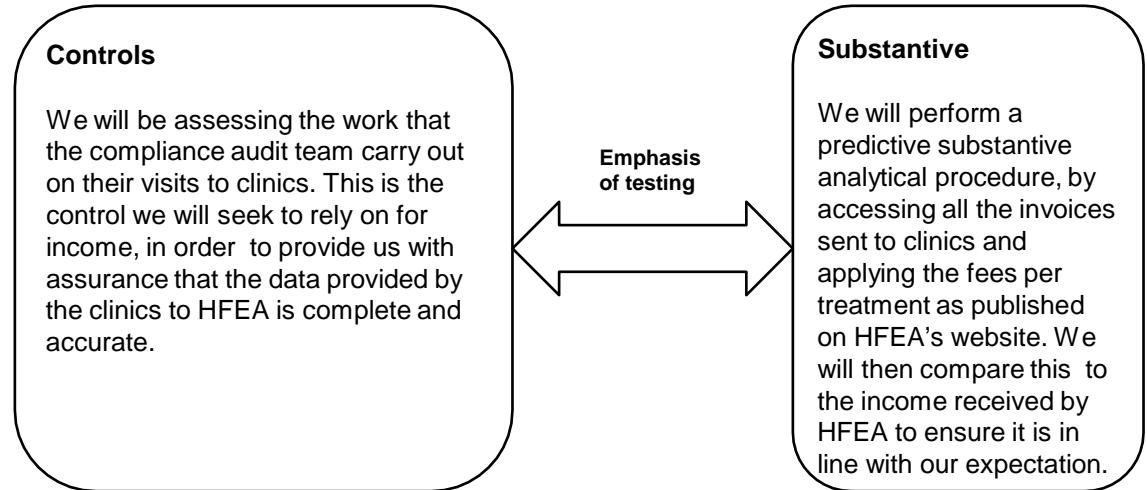
# Appendix 1: Significant financial statement risks



## Change from prior year

**Audit response** - We will undertake specific testing to address the risks involved in accounting for fee income, paying particular attention to the completeness of income, and the accounting estimate relating to accrued income. We will also consider any new income streams.

No change in level of risk from 2013/14.



# Appendix 2: Risk Factors

Risk factors represent current developments within HFEA that are potential risks to the C&AG's audit opinion. They differ from significant risks as they do not currently require a specific or additional audit response.

## **Risk factor 1**

### Accounting treatment of IfQ capital expenditure project

HFEA's budget relating to the Information for Quality programme is £1.2million for 2014/15. When intangible assets are developed, management have to make judgements as to whether expenditure should be capitalised as part of the value of the asset or expensed in year. Therefore there is a risk that the judgements applied may not be in line with the requirements of IAS 38: Intangible Assets, materially overstating or understating the value of the assets. There are also potential implications on the valuation of HFEA's current asset base, as they become obsolete due to the development of new assets.

We will address this risk factor through testing of both non-current asset additions and existence, and expenditure to ensure that the correct accounting treatment has been applied.

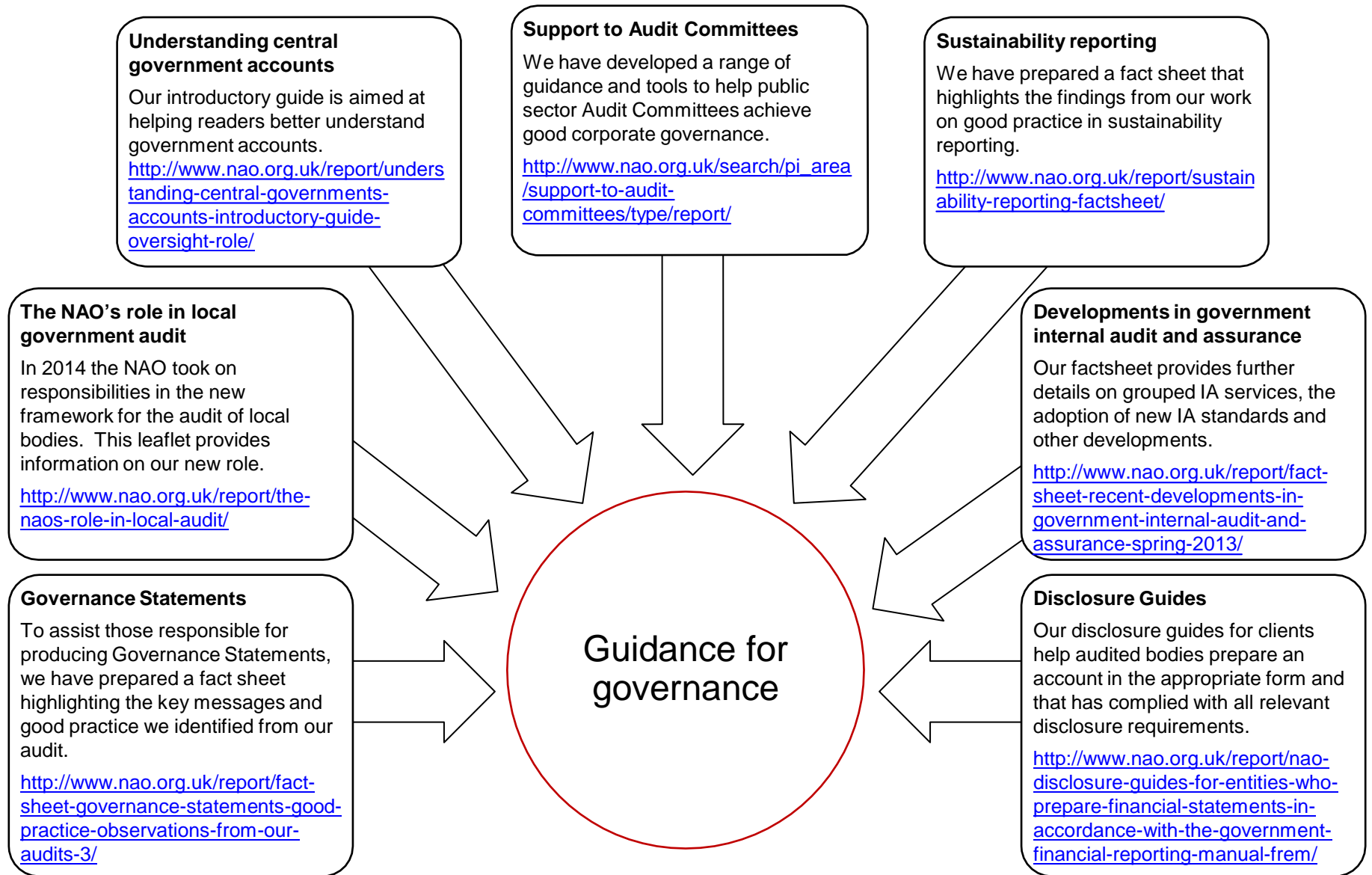
## **Risk Factor 2**

### Sharing of senior staff with HTA resulting in a reduced capacity

2014/15 will be the first full year where HFEA and HTA share back office functions, including senior finance staff within the organisation. There is a risk that the reduced capacity of finance staff may impact on the strength of the control environment. This may also result in delays to the preparation of the accounts and timely response to audit queries.

To address this risk factor, we will liaise with finance in advance and consider the timings of the HFEA audit together with the HTA audit. It is likely the two weeks for interim will be split in order to ease the burden on the finance team, ensure consistency across HTA and HFEA audit teams, and complete the majority of our work prior to the final audit period.

# Appendix 3: Sector developments



# Appendix 4: Recent NAO work

## The 2013-14 savings reported by the Efficiency and Reform Group

In July 2014, the NAO published The 2013 14 savings reported by the Efficiency and Reform Group which examined the £14.3 billion cross- government savings reported for 2013-14. The report found that many of the areas of savings were underpinned by strong methodologies and evidence. However there were a number of areas where more work needed to be done to make the process consistent and collect sufficient robust evidence to support the saving. These included major projects, construction, commercial relationships and digital controls. Overall we had confidence that savings were being made, but we did not offer assurance on the specific figures announced.

Our report also noted that the remit of the savings has increased over time, covering more areas where savings are being made and widening out from areas of ERG control into areas of influence, and taking in the wider public sector in some (but not all) areas. This means year-on-year comparisons of savings cannot be made.

<http://www.nao.org.uk/report/the-2013-14-savings-reported-by-the-efficiency-and-reform-group/>

## Using alternatives to regulation to achieve policy objectives

The government wants to continue to reduce regulation. Departments must reduce the cost to business of regulation and focus regulation on where it adds the most value.

This paper builds on our work to understand the government's actions to reduce rule-based regulation when it needs to intervene in markets to meet policy goals. We sought to understand what affects departments' use of alternatives to regulation and to learn lessons that can enhance their use across government.

We concluded that a stronger understanding of the factors that increase the success of alternatives is needed. Government needs to articulate more clearly what alternatives to regulation are, how they should be developed and implemented, and when they work best. We concluded that The Better Regulation Executive should continue working with department to inform policymakers about how alternatives to regulation should be considered during policy development.

<http://www.nao.org.uk/report/using-alternatives-to-regulation-to-achieve-policy-objectives/>

## Out-of-hours GP services in England

We published our report Out-of-hours GP services in England in July 2014. Where GPs opt out of providing out-of-hours services, the NHS commissions out-of-hours services separately from in-hours services. Since April 2013, NHS England has delegated responsibility for commissioning such services to 211 clinical commissioning groups. We considered that some clinical commissioning groups are achieving value for money for their spending on out-of-hours GP services. We could not, however, reach the same conclusion about the commissioning of out-of-hours GP services across the board. To achieve value for money, our report concluded that NHS England, either directly itself or in partnership with clinical commissioning groups, needs to understand the variation in cost and performance, and secure improvements in some localities; improve oversight of opted-in services where GP practices have retained responsibility for out-of-hours-care; and strengthen national assurance arrangements. We concluded that NHS England must oversee an increase in awareness of out-of-hours GP services and ensure that these services are integrated effectively with other parts of the urgent care system.

<http://www.nao.org.uk/report/hours-gp-services-england-2/>

## Update on the Next Generation Shared Services Strategy

In December 2012, the Cabinet Office published its Next Generation Shared Services strategy. The Cabinet Office estimated that the savings would be between £400 million and £600 million per annum. The estimated implementation cost was between £44 million and £95 million. To date, the total cost of participating departments has not been collated. The Cabinet Office spending to date on the strategy was £9.8 million.

The Cabinet Office has established two new independent shared service centres. The Cabinet Office is now responsible for the strategic management of the performance of the outsourced providers in the two shared service centres that provide services to 140,000 customers. The overall programme is broadly on track.

The NAO's recommended that the Cabinet Office ensure that departments sign up to the standard operating model, show that its shared services initiatives have achieved value for money through good quality management information and make sure the full benefits of the entire shared services programme are properly realised and tracked.

<http://www.nao.org.uk/report/update-on-the-next-generation-shared-services-strategy/>

Work currently in progress includes Financial Sustainability of NHS Bodies, Health and wellbeing boards and the Better Care Fund, and Public Health England: Spending and accountability



# Appendix 5: Changes to the FReM 2014/15

## FReM Presentational Changes

### Format

The format of the FReM has been updated for 2014-15. The flow of the new FReM is much clearer, avoiding duplication of adaptations and interpretations, improving internal consistency and as a result is more concise. Chapter 6 provides a useful summary of each accounting standard and whether it has been adopted, adapted or interpreted by the FReM.

### Directors' Report and Strategic Report

On 1 October 2013 the Companies Act 2006 (Strategic Report and Directors' Report) Regulation 2013 came into force. Sections 5.2.2 to 5.2.20 of the FReM describe how these requirements have been interpreted for bodies covered by the FReM. The Strategic Report and the Directors' Report should be separately signed and dated by the Accounting Officer.

#### Content of the Strategic report

Full details of the FReM interpretation are detailed in chapter 5 (sections 5.2.6 to 5.2.11). Some of the key matters are summarised below:

- The strategic report should be comprehensive and self-standing, but where information is provided in other parliamentary reporting it can be summarised in the strategic report with a cross reference to the full information.
- There should be disclosure of any significant changes in the department's objectives and activities, its investment strategy and its long term liabilities in light of the spending review settlement.
- Environmental matters are covered by the sustainability report within the strategic report.
- Social, community and human rights issues should be disclosed to the extent necessary for the understanding of the business.
- Departments should disclose performance against their key performance indicators. Other reporting entities should report performance against the indicators agreed with the Minister.

#### Content of the Directors' report

The interpretation of the Companies Act requirements for the Directors' report is in sections 5.2.12 to 5.2.20 of the FReM. Some of the key items to be disclosed are summarised below:

- An indication of how pension liabilities are treated in the accounts – a cross-reference to the accounting policy will normally suffice.
- Details of company directorships and other significant interests held by Board members should be disclosed.
- Sickness absence data.
- Personal data related incidents.

The reporting of Greenhouse Gas Emissions is not required in the Director's report.

## FReM Content Changes

### Impairment of assets (FReM 7.3)

The FReM has been re-drafted to bring greater clarity to the accounting treatment of impairments and when these should be recognised in the Statement of Comprehensive Net Expenditure (SoCNE). For those impairment losses that do not result from a clear consumption of economic benefit or reduction of service potential, the impairment loss continues to be treated as a decrease to the revaluation reserve (to the extent that it does not exceed the amount in the revaluation reserve for the same asset). This will apply to impairments arising from changes in market price. When the loss arises due to a consumption of economic benefit or a reduction in service potential the impairment should be taken to the SoCNE. The FReM clarifies that loss of service potential includes reductions due to a loss or damage arising from normal business operations.

### IFRS 13 – Fair Value Measurement (FReM table 6.1)

IFRS 13 has not been adopted by the FReM for 2014-15. It will be adopted prospectively for periods beginning on or after 1 April 2015. Early adoption is not permitted. Final details are currently under consultation. The FReM includes details to allow users to start to prepare for IFRS 13 adoption.

### Remuneration report – compensation payments (FReM 5.2.25)

The 2014-15 FReM provides additional guidance on the disclosure of compensation payments. It requires entities to disclose if payments have been made under the terms of an approved Compensation Scheme for compensation on early retirement or for loss of office. This disclosure should include a description of the compensation payment and details of the total amounts paid or receivable. The amounts should include any top-up to compensation provided by the employer to buy out the actuarial reduction on an individual's pension.

## Audit and Governance Committee

<b>Paper Title:</b>	<b>Reserves policy</b>
<b>Paper Number :</b>	<b>[AGC (01/10/14) 429 SG]</b>
<b>Agenda Item:</b>	<b>12</b>
<b>Meeting Date:</b>	01 October 2014
<b>Author:</b>	Sue Gallone
<b>For information or decision?</b>	Decision
<b>Resource Implications:</b>	Implementing and monitoring the policy is part of the role of the Finance directorate
<b>Communication</b>	SMT have agreed the draft policy
<b>Organisational Risk</b>	Insufficient reserves put the ongoing viability of the HFEA at risk
<b>Recommendation to the Committee:</b>	AGC is requested to consider, comment and approve the draft reserves policy. It will then be agreed with DH.



**RESERVES POLICY**

**ISSUED : OCTOBER 2014**

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## **Reserves Policy**

### **Purpose**

1. The purpose of this policy is to ensure that both the Executive and Authority of the HFEA are aware of the minimum level at which reserves are maintained and the reasons for doing so. [The minimum level of reserves set out in this policy has been agreed with the Department of Health.]

### **Principle**

2. An organisation should maintain enough cash reserves to continue business operations on a day-to-day basis and in the event of unforeseen difficulty and commitments that arise. It is best practice to implement a reserves policy in order to guide key decision-makers.

## **Reserves Policy**

3. The Authority has decided to maintain a reserves policy as this demonstrates:
  - Transparency and accountability to its licence fee payers and the Department of Health
  - Good financial management
  - Justification of the amount it has decided to keep as reserves
4. The following factors have been taken into account in setting this reserves policy:
  - Risks associated with its two main income streams - licence fees and Grant-in-aid - differing from the levels budgeted
  - Likely variations in regulatory and other activity both in the short term and in the future
  - HFEA's known, likely and potential commitments
5. The policy requires reserves to be maintained at least at a level that ensures the HFEA's core operational activities continue on a day-to-day basis and, in a period of unforeseen difficulty, for a suitable period. The level should also provide for potential commitments that arise.

## **Cashflow**

6. To enable sufficient cover for day-to-day operations, a cash flow forecast is prepared at the start of the financial year which takes into account the timing of when receipts are expected and payments are to be made. Most receipts come from treatment fees - invoices are raised monthly and on average take 60 days to be paid. Cash reserves are needed to ensure sufficient working capital is available to make payments when they become due throughout the year.
7. The HFEA experiences negative cashflow (more payments than receipts) in some months. £500k is needed to cover this cash shortage. Reserves should be maintained so that there is always a positive cash balance.

### **Unforeseen difficulty**

8. The level of reserves required for unforeseen difficulty is based on two elements: salaries (including employer on-costs) and the cost of accommodation. These are deemed to be fixed costs that would have to be paid in times of unforeseen difficulty with all other of the HFEA's running costs being regarded as semi-variable or variable costs and thus excluded from this calculation. These two areas currently represent 74% of the HFEA's total annual budget.
9. The certainty and robustness of HFEA's key income streams and the predictability of fixed costs, as well as the relationship with the sponsor, the Department of Health, indicate that 2 months' salary and accommodation costs is a prudent, but sufficient, minimum level of reserves to hold.
10. Based on the HFEA's current revenue budget, the combined monthly cost of salaries and accommodation is around £340k. Accommodation costs are low at present and are likely to increase following an office move in 2015, by around £20k per month. A prudent reserve of two months going forward would therefore be £720k.

### **Other potential commitments**

11. The HFEA is also mindful of the financial risks it faces, in particular that it may be required to undertake additional activities not planned or make additional spend not included within budget or utilise its reserves for key pieces of work. While every effort would be made to cover costs within the budget allocated for the year, it may

be necessary to use reserves to meet the cashflow needs arising from additional necessary spend.

12. A prudent reserve for other commitments would be £300k. If other exceptional spend was required, the HFEA would look to the Department of Health for support.

### **Minimum reserves**

13. The HFEA's minimum level of reserves will be maintained at a level that enables positive cashflow (£500k), provides £720k for unforeseen difficulty and £300k for other potential commitments. The minimum level of cash reserves required is therefore £1.52m. These reserves will be in a readily realisable form at all times.

14. Each month the level of reserves will be reviewed by the Director of Finance and Resources as part of the HFEA's ongoing monitoring of its cash flow.

15. Each autumn as part of the HFEA's business planning and budget setting process, the required level of reserves for the following financial year will be reassessed.

16. In any assessment or reassessment of its reserves policy the following will be borne in mind.

- The level, reliability and source of future income streams.
- Forecasts of future, planned expenditure.
- Any change in future circumstances - needs, opportunities, contingencies, and risks – which are unlikely to be met out of operational income.
- An identification of the likelihood of such changes in these circumstances and the risk that the HFEA would not be able to meet them.

17. HFEA's reserves policy will be reviewed annually by the Audit and Governance Committee.

### **Revision history**

18. Document each version or draft providing a simple audit trail to explain amendments.

<b>Date</b>	<b>Version</b>	<b>Comments</b>
19/9/14	1	Document created

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