



National Audit Office

Human Tissue Authority

Audit planning report on the 2024-2025 financial statements audit

Report to those charged with governance
11 February 2025

This report presents details of our proposed approach for the audit of the 2024-25 financial statements

We plan our audit of the financial statements to respond to the risks of material misstatement and material irregularity. This report sets out how we have built our assessment of risk, what we base materiality on, those risks we expect to be significant and how we will respond to those risks. We also set out in this report details of the team carrying out the audit, the expected timing of the audit and our fees.

Actions for the Audit and Risk Assurance Committee ('ARAC')

We would like to invite Audit and Risk Assurance Committee members to discuss:

- Whether our assessment of the risks of material misstatement to the financial statements is complete (including any matters those charged with governance consider warrant particular attention during the audit, and any areas where they request additional procedures to be undertaken);
- Whether management's response to these risks are adequate;
- Our proposed audit plan to address these risks;
- Whether the financial statements could be materially misstated due to fraud, and communicate any areas of concern to management and the audit team;

We would also like to invite the committee to consider our fraud risk assessment on page 8.

Nick Doran: Engagement Director- NAO

Dean Gibbs: Engagement Director- KPMG

We have prepared this report for Human Tissue Authority's sole use although you may also share it with the Department of Health and Social Care ('DHSC'). 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.

We would also like to take this opportunity to enquire of those charged with governance about the following areas:

- Other matters those charged with governance consider may influence the audit of the financial statements
- The entity's objectives and strategies, and the related business risks that may result in material misstatements
- Possibility, knowledge of and process for identifying and responding to the risks of fraud
- Oversight of the effectiveness of internal control
- Whether any non-compliance with any laws or regulations (including regularity) have been reported to those charged with governance (e.g. from staff, service organisations or other sources)
- Policies, procedures and systems for recording non-compliance with laws, regulations and internal policies.
- Whether members have knowledge of any actual, suspected or alleged fraud affecting the entity.

Audit Risks (pages 6 – 7)

We plan our audit of the financial statements to respond to the risks of material misstatement, or irregularity, within transactions and balances.

This is our initial assessment of risk, as we have yet to complete all of our risk assessment activities. If our assessment changes upon conclusion of these, this will be communicated to you.

Presumed risk of management override of controls

Potential legal claim

Materiality (page 10)

- When setting materiality, we consider both qualitative and quantitative aspects that would reasonably influence the decisions of users of the financial statements.
- Our overall materiality has been based on the forecast expenditure for the 2024/25 financial year. We will reassess this as part of our final accounts audit. Should we be required to revise materiality, we will communicate this to the ARAC.

Materiality (2%)

£116,000

Error reporting threshold

£2,320

Audit team, fee and timetable

- Nick Doran will be responsible for the overall audit. Dean Gibbs will lead the engagement for KPMG. The full engagement team is presented on page 16.
- Our audit fee for this year is yet to be determined and we will communicate and agree with management at the completion of the detailed planning. We expect to charge an inflationary increase and assess if there whether the scope of the work remains consistent with the prior year.
- We are planning to complete the audit in advance of the summer 2025 Parliamentary recess.

We are well placed to develop an understanding of the risks to the Human Tissue Authority drawing on your own assessment, the historic assessment of risk and the broader context

Human Tissue Authority's assessment of risk

The Human Tissue Authority's strategic risk register sets out a number of risks. We have engaged with management to understand the background to these risks, movement in impact and likelihood and have considered how these inform our assessment of audit risks.



Failure to regulate appropriately

Failure to utilise capabilities effectively

Failure to achieve benefits of the organisational development programme

Failure to manage an incident

Failure to manage regulatory expectations

Our audit Risk Assessment

The 2023-24 audit highlighted a number of areas of audit risk and focus, we have built on this historical assessment to consider whether these remain risks for the year. We have made inquiries of management (and other appropriate individuals within the entity), performed analytical procedures, and carried out observations and inspections to inform our assessment of risk.



Accuracy of accruals

Wider Factors

We have drawn upon our wider assurance work and our understanding of the broader environment in which the Human Tissue Authority operates to inform our risk assessment.



Publications

The table shows how the key business process and operational risks identified by Human Tissue Authority may impact on the Annual Report and Accounts and give rise to significant risks and areas of focus for our audit.

These are areas where we will perform additional audit work as outlined in the following pages and report our findings to you.

Human Tissue Authority's assessment of risk		Regulation	Sector	Staff	Financial	Digital
Significant risks	Management override of controls				●	
	Potential legal claim	●			●	

Presumed risk of management override of controls

Why we have identified this as a risk

Management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by using its position to override controls that otherwise appear to be operating effectively.

This is a presumed risk for all audited bodies under International Standards on Auditing (ISA 240) (UK).

The standard requires that auditors perform audit procedures to address this risk, focusing on three key areas: journal entries, bias in management estimates and significant or unusual transactions.

Work we plan to undertake in response

Controls:

Review of controls relevant to the audit including those over:

- Manual accounting journals;
- Segregation of duties;
- The appropriateness of journal entries and other adjustments in preparing the financial statements.

Substantive:

- Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments.
- We will identify and test journals that meet the high risk criteria deemed appropriate by the audit team based on an assessment of the patterns in journal posting during the year and our knowledge of the HTA.
- We will examine significant or unusual transactions and review errors collectively for patterns in adjustments.
- Assess the appropriateness of any material adjustments made after the close of the ledger to the reported financial performance.

*Significant Risks are an identified risk of material misstatement for which the assessment of inherent risk is close to the upper end of the spectrum due to the degree to which inherent risk factors affect the combination of the likelihood of a misstatement occurring and the magnitude of the potential misstatement should that misstatement occur; or that is to be treated as a significant risk in accordance with the requirements of other ISAs (UK). Significant risks can relate to classes of transactions, account balances or disclosures, or be pervasive across the financial statements.

Potential legal claim

NEW

Why we have identified this as a risk

Based on several discussions with the HTA Finance Team and Executive members, we have been made aware of a potential legal case against HTA with several parties potentially involved resulting from an individual who has suggestively been subject to medical negligence. The individual has a year to begin discussions and build a case, which continues to a time period after the scheduled signing of the accounts. At the time of drafting this report, there is no formal legal supposition.

IAS 37 specifies that where it is more likely than not that a present obligation exists at the end of the reporting period, the entity recognises a provision. If it is more likely that no present obligation exists at the end of the reporting period, the entity discloses a contingent liability.

Given the uncertainty associated with the case the HTA will need to undertake an assessment to consider at the point of preparing the accounts whether it considers it likely that a case will be made against them and if so the likely outcome of that case. The circumstances around this may evolve between the time of preparing and approving the accounts, which would also need to be considered.

Work we plan to undertake in response

Controls:

- We will assess the design and implementation of controls in place to undertake an assessment of whether a provision is required or not.

Substantive:

- We will critically assess management's assessment of whether there is a probable outflow of economic resources, which will need to consider the likelihood of a claim and the likelihood of it being successful.
- We will critically assess whether is appropriate to record a provision or disclose a contingent liability.
- We will critically assess the valuation of provisions made, if any.

We shall communicate, unless prohibited by law or regulation, with those charged with governance any other matters related to fraud that are, in our auditor's judgment, relevant to their responsibilities. Under ISA (UK) 240, it is our responsibility as auditors to report to those charged with governance:

- Any risks of material misstatement identified due to fraud
- Any matters we think are relevant to those charged with governance regarding management's process for identifying and responding to the risks of fraud at the Human Tissue Authority

Below, we have summarised our initial assessment of the risk of fraud relevant to the Human Tissue Authority, and how this may impact on the financial statements.

Risk of material misstatement due to fraud

Professional standards require us to communicate the fraud risk from management override of controls as significant.

Management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

We have not identified any specific additional risks of management override relating to this audit.

Fraud risk factors relevant to the Human Tissue Authority

We are required under auditing standards to consider the risk that management may fraudulently recognise revenue, and by public sector auditing standards to consider the risk of manipulation of expenditure.

We have assessed whether there is pressure for management to manipulate reported performance. At the time of undertaking our planning the HTA was forecasting a small surplus (c.£100k) against its available funding in 2024-25. This may create an incentive to increase expenditure to cover the risks next year. We are also aware that grant in aid is anticipated to be reduced in 2025-26. However, we acknowledge that HTA is setting their fees every year to recover full costs hence there is no significant pressure to manipulate performance to manage future cost pressures.

We have also noted that there has been significant changes in the financial team structure specifically with senior staff which is linked to management's unique position to perpetrate fraud because of their ability to manipulate accounting records.

Matters regarding management processes for identifying and responding to the risks of fraud

No matters identified currently regarding management processes for identifying and responding to risk of fraud



In line with generally accepted practice, we have set our quantitative materiality threshold as approximately 2% of expenditure which equates to £116,000.

These levels remain comparable to those used in the prior year.

Our overall account materiality is based on forecast total expenditure, since expenditure is the main driver of the Human Tissue Authority's activities.

We also audit disclosures associated with the remuneration report. Due to the sensitivity to the users of the financial statements; misstatements of an amount less than materiality could influence their interpretation.

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.

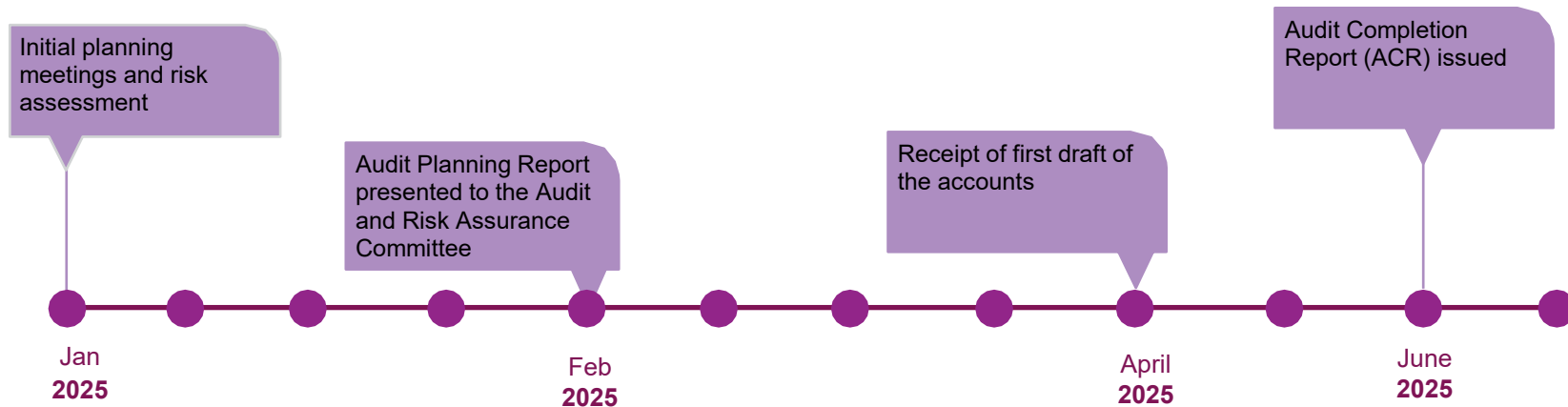
The concept of materiality recognises that absolute accuracy in financial statements is rarely possible. An audit is therefore designed to provide reasonable, rather than absolute, assurance that the financial statements are

free from material misstatement or irregularity. We apply this concept in planning and performing of our audit, and in evaluating the effect of identified misstatements on our audit and of uncorrected misstatements, if any, on the financial statements and in forming the audit opinion. This includes the statistical evaluation of errors found in samples which are individually below the materiality threshold but, when extrapolated, suggest material error in an overall population. As the audit progresses our assessment of both quantitative and qualitative materiality may change.

We also consider materiality qualitatively. In areas where users are particularly sensitive to inaccuracy or omission, we may treat misstatements as material even below the principal threshold.

Timing of the audit

The timetable comprises a planning visit commencing for 13th January 2025 for 1 week and a final visit commencing 14th April 2025 with certification planned for June 2025



Planning

In consultation with Management, Audit Committee, Internal Audit and other Key stakeholders, review the Human Tissue Authority's operations, assess risk for our audit and evaluate the control framework.

Determine audit strategy.

Final fieldwork

Test expenditure and income and significant balances and disclosures

Completion

ACR: present our findings and recommendations.

Seek management representations.

C&AG issues opinion.

Management Letter: provide final recommendations on control matters identified.

Debrief

Meeting to discuss lessons learned and improvements for the following year.

Audit quality is core to the NAO's purpose. It supports effective accountability, better financial reporting and stronger financial management. We want our audit insights to be valued, and to be a leading voice in public sector financial reporting and financial management.

For our work to have the impact and influence required, and for Parliament and the wider public to have confidence in the quality of our work, we must uphold high standards of ethics and integrity and work within a framework of values that preserve audit independence.

The quality of our financial audit work is fundamental to delivering on our purpose and is the top priority of the NAO Board and Executive Team.

On our audit of financial statements, **we measure the quality of our financial audits through an annual programme of internal and external inspections.** These inspections review a sample of our audits. Our target is that all our financial audits meet our quality standards.

These standards are that, should an audit be inspected by an independent reviewer, the reviewer finds that the audit requires no more than limited improvement is required. Each audit is graded from 1 to 4 where 1 is good or best practice and 2 is limited improvements required – ratings meeting our quality standard; with a grade of 3 where improvements are required and 4 where significant improvements are required – ratings below our quality standard.

The results of our internal and external inspections show that we can and do deliver quality audits but that we need to do more to meet the required standard consistently. Following disappointing results from the external inspection of a sample of our 2021-22 audits, the results of the inspection of 2022-23 audits show some improvement but also that, as for other audit firms of our size, there is more work for us to do.

We are fully focused on meeting and keeping pace with rising regulatory expectations for financial audit and we are working hard to address the underlying causes of the issues found and we are confident in the improvement actions we are taking. **Our annual [Transparency Report for 2023-24](#) sets out these issues and our response in more detail.**

Our Audit Transformation Programme has been running since 2021 and we have already seen positive impact from the investments we have made.

In late 2023, we reached a significant milestone of our Audit Transformation Programme, with the rollout of our new financial audit software platform, Apex, on time and on budget. Apex helps support quality and efficiency through guided workflows, automation, and standardisation. All our audit teams are using Apex for the first time – combined with our new audit and sampling methodologies which we implemented over the last two years – for our audits of government's 2023-24 accounts which will be inspected during 2024-25.

We are continuing to work on realising fully the benefits of the substantial investment we have made in our new methodology and audit platform through the launch of our Quality First Plan in April 2024, covering 6 key pillars:

Learning & culture

Nurturing a quality first culture and improving capability – more and better L&D, refreshed approach to engagement and comms, a greater understanding of our culture and a focus on behaviours

Resources

Improving capacity, capability and resilience – more resources, increased productivity, improved planning and management, better recruitment processes, a new contracting out model.

Methodology and Support

Supporting colleagues with best practice methodology, policies and practice – a new support model with Quality Directors and business partners; clarified and enhanced audit procedures; new sampling approach; more investment in centres of expertise; and an enhanced quality support framework for high-risk audits

Technology

Taking opportunities to use technology to improve audit – delivering enhancements to Apex, a new engagement portal, increasingly adopting IT controls, data analytics, new AI technologies; and improved sampling, journals and AIMS applications.

Assurance

Robust monitoring and assurance – accelerated "cold" and "in flight" review models; enhanced audit quality indicators and dashboards; improved root cause analysis; and better dissemination of lessons learnt.

Our context

Influencing our external auditing environment and stakeholders – enhanced engagement with stakeholders and audited entities to support improved audit quality.

You will have already seen the impacts of our audit quality agenda in how we perform our audits, for example through enhanced focus on harder to value assets and greater emphasis on obtaining documented management judgements in areas of risk.

As set out in our [guide](#) for Audit Committees, we are committed to working with you to deliver highly quality, timely audits. **Your Engagement Director would be delighted to discuss these issues further with you and how they might apply on your particular audit.**



National Audit Office

Working together to achieve a high-quality, timely and efficient audit – how the Audit and Risk Assurance Committee can support

We consider that management and Audit Committees are a critical element in supporting us to deliver consistent, high-quality audit work. This is supported by the Financial Reporting Council, which has identified the way in which management approaches the preparation of financial statements and provision of audit evidence as a key attribute for a good audit¹. The Audit Committee Chairs' Independent Forum has similarly highlighted the importance of effective working between the auditor, management and Audit Committees to support good quality audit work².

Our guide, [*Working together to achieve high-quality, timely and efficient audits*](#), provides an overview of the significant changes over the last ten years to accounting and auditing standards, and regulatory expectations around audit quality. We set out how the NAO is responding to these changes and how both management and Audit Committees can support in achieving high-quality, timely and efficient audit work.

Your NAO audit team looks forward to closely engaging with you on how we can work together to achieve high quality work.



**Working together
to achieve high
quality, timely and
efficient audits:**

Our audit contract with you

¹FRC Guide '[What Makes a Good Audit](#)'

²Audit Committee Chairs' Independent Forum: '[A Combined Perspective on Enhancing Audit Quality](#)'

Other Matters

Audit scope and strategy

This audit plan covers the work we plan to perform to express an opinion on whether the financial statements are free from material misstatement and are prepared, in all material respects, in accordance with the applicable financial reporting framework.

The plan is also designed to ensure the audit is performed in an effective and efficient manner

Our audit approach is a risk based approach, ensuring that audit work is focused on significant risks of material misstatement and irregularity.

In areas where users are particularly sensitive to inaccuracy or omission, a lower level of materiality is applied, e.g. for the audit of senior management remuneration disclosures and related party transactions.

When undertaking our risk assessment we take into account several factors including:

- Inquiries of management
- Analytical procedures
- Observation and inspection of control systems and operations
- Examining business plans and strategies

Our risk assessment will be continually updated throughout the audit.

Group audit considerations – Revised ISA (UK) 600

ISA (UK) 600 is the key source of guidance for auditors in performing a group audit and fulfilling the requirements of other ISAs (UK) in the context of an audit of group financial statements. Our expectation is that the revised standard will lead to more components being scoped-in for consideration as part of the group audit but where they are scoped in for consideration, that consideration will be more focused on the risks of material misstatement to the group financial statements.

Whilst HTA is being consolidated into the Department of Health and Social Care, this is not the subject of this report and HTA is not a group.

Independence

We and KPMG are independent of the Human Tissue Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard. We have fulfilled our ethical responsibilities in accordance with these requirements 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: <https://www.nao.org.uk/about-us/our-work/governance-of-the-nao/transparency/>.

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

Other Matters

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 available on the NAO website:

<http://www.nao.org.uk/freedom-of-information/publication-scheme/how-we-make-decisions/our-policies-and-procedures/policies-and-procedures-for-conducting-our-business/>

Use of contractor firms

The NAO has appointed KPMG to undertake the detailed work to support the C&AG's opinion. On a day-to-day basis the audit will be managed and the work carried out by KPMG staff, under the direction of the NAO. The responsibility for recommending the form of audit opinion to the C&AG shall be retained by the NAO.

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.

We place no reliance on their work but consider their findings as part of our risk assessment.

Communication with the NAO

Organisations we audit tell us they find it helpful to know about our new publications, cross-government insight and good practice.

Our [website](#) holds a wealth of information from latest publications which can be searched, to pages sharing our insights on important [cross-cutting issues](#). We also publish blogs and send email notifications to subscribers about our work on particular sectors or topics. If you would like to receive these alerts, please sign up at: <http://bit.ly/NAOoptin>. You will always have the option to amend your preferences or unsubscribe from these emails at any time.

NAO's Transparency Report

The NAO's annually published [Transparency Report](#) documents how we support Parliament in holding government to account through our statutory public audits.

The report includes details of our quality plan and the whole system approach we are taking to ensure consistently high-quality audit work including our adoption of the *International Standard on Quality Management (UK) 1 – Quality Management for firms that perform audits or reviews of financial statements, or other assurance or related services engagements*.

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In line with ISAs (UK) we are required to agree the respective responsibilities of the C&AG/NAO and the Accounting Officer/audited entity, making clear that the audit of the financial statements does not relieve management or those charged with governance of their responsibilities. These responsibilities are set out in the Letter of Understanding and are summarised here.

Area	Accounting Officer/management responsibilities	Our responsibilities as auditor
Scope of the audit	<ul style="list-style-type: none"> • Prepare financial statements in accordance with the Human Tissue Act 2004 and HM Treasury guidance and that give a true and fair view. • Process all relevant general ledger transactions and make these, and the trial balance, available for audit. • Support any amendments made to the trial balance after the close of books (discussing with us). • Agree adjustments required as a result of our audit. • Provide access to documentation supporting the figures and disclosures within the financial statements. • Subject the draft account to appropriate management review prior to presentation for audit 	<ul style="list-style-type: none"> • Conduct our audit in accordance with International Standards on Auditing (ISAs) (UK). • Report if the financial statements do not, in any material respect, give a true and fair view. • Review the information published with the financial statements (e.g. annual report) to confirm it is consistent with the accounts and information obtained during the course of our audit.
Fraud	<ul style="list-style-type: none"> • Primary responsibility for the prevention and detection of fraud. • Establish a sound system of internal control designed to manage the risks facing the organisation; including the risk of fraud. 	<ul style="list-style-type: none"> • Obtain reasonable assurance that the financial statements (as a whole) are free from material misstatement, whether caused by fraud or error. • Make inquiries of those charged with governance in respect of your oversight responsibility. • Discuss fraud risks associated with the entity with those charged with governance.

Area	Accounting Officer/management responsibilities	Our responsibilities as auditor
Regularity	<ul style="list-style-type: none"> • Ensure the regularity of financial transactions. • Obtain assurance that transactions are in accordance with appropriate authorities, including the organisation's statutory framework and other requirements of Parliament and HM Treasury. 	<ul style="list-style-type: none"> • Conduct our audit of regularity in accordance with Practice Note 10, 'Audit of financial statements and regularity of public sector bodies in the United Kingdom (revised 2022)', issued by the Financial Reporting Council. • Confirm the assurances obtained by the Human Tissue Authority that transactions are in accordance with authorities. • Have regard to the concept of propriety, i.e. Parliament's intentions as to how public business should be conducted.
Propriety	<ul style="list-style-type: none"> • Ensure the propriety of financial transactions • Ensure that patterns of resource consumption should meet high expectations of public conduct, and robust governance and respect Parliament's intentions, conventions and control procedures, including any laid down by the Public Accounts Committee. 	<ul style="list-style-type: none"> • Propriety is not readily susceptible to objective verification and, as such, is not expressly covered in the opinion on financial statements. When issues of propriety come to light in the course of the audit of financial statements, the auditor considers whether and, if so, how they may be reported.
Governance statement	<ul style="list-style-type: none"> • Review the approach to the organisation's governance reporting. • Assemble the governance statement from assurances about the organisation's performance and risk profile, its responses to risks and its success in tackling them. • Board members, with the support of the Audit and Risk Assurance Committee, evaluate the quality of internal control and governance, and advise on any significant omissions from the statement. 	<ul style="list-style-type: none"> • Confirm whether the governance statement is consistent with our knowledge of the organisation, including its internal control. • Consider whether the statement has been prepared in accordance with HM Treasury guidance, including Managing Public Money.
Accounting estimates and related parties	<ul style="list-style-type: none"> • Identify when an accounting estimate, e.g. provisions, should be made. • Appropriately value and account for estimates using the best available information and without bias. • Identify related parties. • Appropriately account for and disclose related party transactions. 	<ul style="list-style-type: none"> • Consider the risk of material misstatement in respect of accounting estimates made by management. • Perform audit procedures to identify, assess and respond to the material risks of not accounting for or disclosing related party relationships appropriately. • We have not identified any significant risks at this stage.

Appendix 3: Follow up to recommendations we made in the previous year

In 2023-24 we made the below recommendations to the Human Tissue Authority. Below is an update on the status of these recommendations.

Retention of HR Documentation		Medium Risk
<p>Finding</p> <p>As part of our testing of exit packages we identified that a leaver form was not available for the individual that left during the year with an exit package.</p> <p>We were also unable to obtain copies on request of appointment letters for independent Board members to verify the details of their appointments.</p> <p>We note that following the change in HR service provision during the year there is currently some inconsistency in where documentation is retained depending on the timing of changes.</p>	<p>Our recommendation</p> <p>Management should reiterate to the HR team the importance of completing and retaining all relevant documentation of salary changes and appointments. This is to ensure there is a written record maintained for all individuals leaving the HTA.</p>	<p>Management update</p>
Remuneration Committee – Documentation and Decision Making		Low Risk
<p>Finding</p> <p>A record was not maintained of the decision made at the Remuneration Committee relating to remuneration of the Chief Executive to confirm the terms of the award made in year. We have been able to confirm the intended terms through inquiry with the committee chair and review of emails sent after the committee, however a formal record should be maintained to ensure there is clarity of the decisions made.</p>	<p>Our recommendation</p> <p>The Remuneration Committee should ensure that some secretarial support is maintained when discussing the Executive pay award so that there is a record of the decisions made or the committee chair should ensure that a written record is maintained for the minutes of the decision.</p>	<p>Management update</p>
<p>High risk: major issues for the attention of senior management which may have the potential to result in a significant deficiency in internal control</p>		<p>Medium risk: important issues to be addressed by management in their areas of responsibility.</p>
		<p>Low risk: problems of a more minor nature which provide scope for improvement</p>

Appendix 3: Follow up to recommendations we made in the previous year

FinancialAuditPlanning

In 2023-24 we made the below recommendations to the Human Tissue Authority. Below is an update on the status of these recommendations.

FD Signature Access and Sequencing		Low risk
<p>Finding</p> <p>We identified instances where purchase order requests had the approver’s signature attached to them in advance of that individual providing approval for the purchase.</p> <p>While we did not identify any evidence of purchases being ordered prior to a confirmation being obtained that the approver was satisfied with the purchase we consider that signatures should not be pre-emptively added to requisition requests ahead of the approval being confirmed.</p>	<p>Our recommendation</p> <p>The importance of obtaining approval prior to signatures being added to requisitions should be reinforced to those responsible for raising requisition requests.</p>	<p>Management update</p>

High risk: major issues for the attention of senior management which may have the potential to result in a significant deficiency in internal control

Medium risk: important issues to be addressed by management in their areas of responsibility.

Low risk: problems of a more minor nature which provide scope for improvement

Accounting standard	Detail	Future direction for Human Tissue Authority
<p>IFRS 17: Insurance Contracts</p> <p>IFRS 17 implementation will now be effective from 1 January 2023. The previous IASB implementation date was 1 January 2022.</p> <p>IFRS 17 will be effective in the FReM from 1 April 2025.</p>	<p>IFRS 17: Insurance Contracts replaces IFRS 4 of the same name. The new standard will apply more standardised and rigorous requirements on accounting for insurance contracts. The new standard sets clearer expectations on the recognition, classification and measurement of assets and liabilities in relation to insurance contracts.</p> <p>The scope of the standard covers insurance contracts issued and re-insurance contracts issued or held. An insurance contract is defined as:</p> <p><i>“A contract under which one party (the issuer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.”</i></p> <p>HMT have considered the application of IFRS 17 in the public sector and accordingly have made some interpretations and adaptations to the standard to make this standard more suitable. These details can be found in the released application guidance.</p>	<p>Entities should consider if in their normal course of business they provide any insurance contracts and consider what systems and reporting may be required to manage the change in accounting policy.</p> <p>Audit and Risk Assurance Committee’s are asked to consider whether, through contractual arrangements or custom and practice, their enterprises insure other bodies against specific risks. Where arrangements are identified, entities should consider the application guidance released and where relevant engage with HMT on the application of the standard within the public sector. Audit and Risk Assurance Committee’s are requested to continue to monitor new transaction streams or arrangements against the criteria of IFRS 17 to ensure all liabilities are appropriately recognised across the government estate.</p> <p>Accounting for insurance contracts requires information and understanding of actuarial adjusted outcomes, risk and discounting. Audited entities will need to prepare different data, system and processes to implement the standard. You should consider whether any expertise, internal or external is required.</p> <p>Implementation of IFRS 17 is in 2025-26, the standard should not be underestimated and preparations will be required. Implementation requires full restatement of the prior year balances (2024-25) and will therefore involve more work than the cumulative catch-up model permitted for IFRS 16.</p> <p>In 2024-25 the financial statements will require a pre-implementation transition disclosure. This will include the fact IFRS 17 will be effective next year and any known or reasonably estimable information relevant to assessing the possible impact of the standard will have. This disclosure will be subject to audit.</p>

ISA (UK) 600
(Revised September 2022): Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)

Effective for audits of group financial statements for periods beginning on or after 15 December 2023 (the 2024-25 audit cycle)

ISA (UK) 600 is the critical standard which drives the auditor's approach to auditing the group financial statements, with a particular focus on the following areas:

- Risk Assessment
- Quality management in an audit of group financial statements
- Understanding the group and its environment, the applicable reporting framework and the Group's System of Internal Control
- Using the work of component auditors

ISA (UK) 600 is the key source of guidance for auditors in performing a group audit and fulfilling the requirements of other ISAs (UK) in the context of an audit of group financial statements

The aims of the revised standard is to:

- Clarifying the scope and applicability of ISA (UK) 600
- Embedded the principles of the revised quality management standards into the delivery of the audit of group financial statements
- Focusing the group engagement team's attention on the identification and assessment of risk of at the group financial statement level and emphasising the importance of designing and performing appropriate procedures to respond to those risks.
- Increased requirements for robust communications between the group engagement team, the group engagement partner and component auditors.

The key impacts are:

- A revised top-down approach to group risk assessment, which may mean assurance being required of a different profile of components.
- Greater involvement from the group engagement team in component auditors, taking a quality management perspective on the work of the component auditor.
- A clearer workflow employed by the auditor when performing a group audit.

Our expectation is that the revised standard will lead to more components being scoped-in for consideration as part of the group audit but where they are scoped in for consideration, that consideration will be more focused on the risks of material misstatement to the group financial statements.

Appendix 6: Changes to the valuation for FReM non-investment assets

In 2022-23 HM Treasury conducted a review on the valuation approach in place for all non-investment assets. Subject to finalisation of the approach to valuing land under the modern equivalent asset basis, HM Treasury have agreed changes to the valuation basis for non-investment assets in 2025-26. The current asset classes under the FReM, will be changing as set in out in the proposed measurements section alongside proposed valuation approaches.

Asset Category under the FReM	Current Measurement	Proposed measurements
Networked assets	Depreciated replacement cost	<p>These three asset categories will be merged into a new category 'operational assets'. Operational assets are proposed to be measured at Existing Use Value, the methodology for calculating this value will often be Depreciated Replacement Cost.</p> <p>The proposed new guidance is designed to ensure full revaluations are not required more frequently than quinquennially. The frequency and type of valuations should follow one of the three following options:</p> <ul style="list-style-type: none"> • A quinquennial revaluation supplemented by annual indexation in intervening years. • A rolling programme of revaluations over a 5-year cycle, with indexation applied to assets not revalued in a given financial year. • For non-property assets, revaluation by indexation only. <p>HMT have proposed Depreciated Replacement Cost valuations should be altered going forward to be valued based on current locations and not based on alternative locations.</p> <p>The FReM allows for staged implementation</p>
Specialised assets	Depreciated replacement cost	
Non-specialised assets	Market value in existing use	
Heritage assets	No change	
Surplus assets	No change	
Intangible assets	Market value in existing use or historical cost for low value assets or assets with short useful lives	Historical (deemed) cost

There are no transition disclosure requirements for these changes in the year before implementation (2024-25) financial year, and the FReM allows staged implementation in line with the revaluation cycle – it does not require revaluation of all assets in the year of implementation. However, entities should engage early with valuers, particularly where assets are valued using modern equivalent asset and / alternative location basis, to understand the impact of the changes.

Appendix 7: Task Force on Climate related Financial Disclosure

Central government are aligning to the [TCFD recommended disclosures](#) as set out by the Financial Stability Board. These are being implemented on a comply or explain basis, as a framework to understand and disclose climate-related financial information in the public sector.

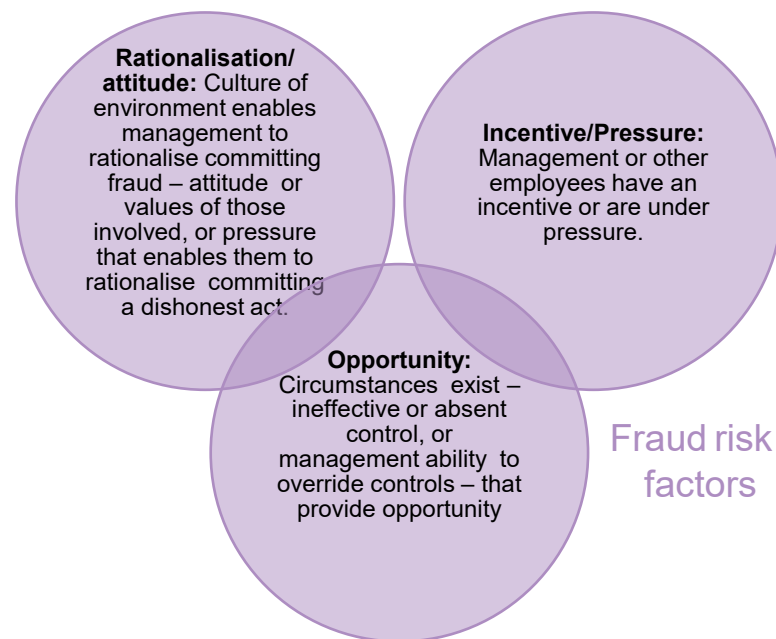
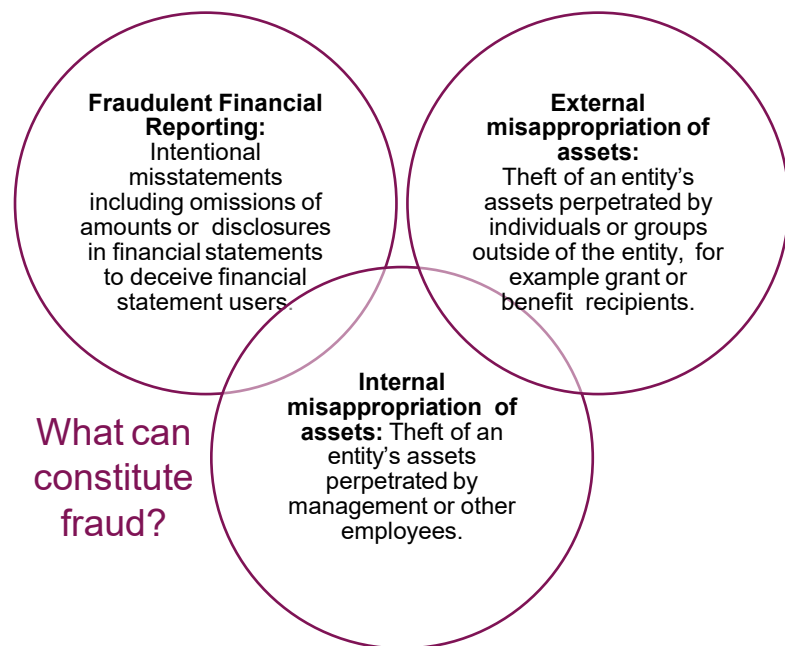
HM Treasury have developed [application guidance](#), which includes the table below to support the phased implementation in central government.

	Phase 1 - Governance Focus	Phase 2 – Risk Management and Metrics and Targets	Phase 3 – Strategy
Target Period	2023-24	2024-25	2025-26
Focus	High-level overview	Qualitative disclosures and quantitative disclosure with less technical requirements	Quantitative disclosures with more technical requirements. TCFD-aligned disclosure is fully implemented
Requirements	Reporting entities shall provide a TCFD Compliance Statement and the recommended disclosures for: <ul style="list-style-type: none"> • Governance • Metrics and Targets (b), only where available from existing reporting processes. <p>Comply or explain basis</p>	Reporting entities shall provide a TCFD Compliance Statement and the recommended disclosures for: <ul style="list-style-type: none"> • Governance • Risk Management • Metrics and Targets <p>Comply or explain basis</p>	Reporting entities shall provide a TCFD Compliance Statement and the recommended disclosures for: <ul style="list-style-type: none"> • Governance • Risk Management • Metrics and Targets, considering wider reporting. • Strategy <p>Comply or explain basis</p>
Interaction with Greening Government Commitments	Continue to apply GGC21-25 for emissions for Metrics and targets., in line with SRG	Continue to apply GGC21-25 emissions for Metrics and Targets, in line with SRG	Consider new GGC period for 25-30 (GGC21-25 runs until 31 March 2025 with the next commitment period for GGC25-30 starting on 1 April 2025)

For 2024-25, all Phase 1 and Phase 2 requirements should be captured. Risk Management disclosures must describe the organisation's processes for identifying, assessing, and managing climate-related risks, and how these are integrated into overall risk management. Phase 2 also requires assessing whether climate change is a principal risk.

Phase 3 disclosure requirements for 2025-26, as outlined in the [Exposure Draft](#) requires more data and consideration than previous phases. Ideally, all phases should be viewed holistically and we recommend planning now to meet these requirements.

ISA (UK) 240 'The auditor's responsibility to consider fraud in an audit of financial statements' requires us, as your auditors, to make inquiries and obtain an understanding of the oversight exercised by those charged with governance.



ISA inquiries

Our inquiries relate to your oversight responsibility for

- Management's assessment of the risk that the financial statements may be materially misstated owing to fraud, including the nature, extent and frequency of such assessments;
- Management's process for identifying and responding to the risks of fraud, including any specific risks of fraud that management has identified or that has been brought to its attention;
- Management's communication to the Audit and Risk Assurance Committee (and others charged with governance) on its processes for identifying and responding to the risks of fraud; and
- Management's communication, if any, to its employees on its views about business practices and ethical behavior.

We are also required to ask whether you have any knowledge of any actual, suspected or alleged fraud and discuss with you the risks of fraud in the entity.

Audit approach

We have planned our audit of the financial statements so that we have a reasonable expectation of identifying material misstatements and irregularity (including those resulting from fraud). Our audit, however, should not be relied upon to identify all misstatements or irregularities. The primary responsibility for preventing and detecting fraud rests with management.

We will incorporate an element of unpredictability as part of our approach to address fraud risk. This could include, for example, completing procedures at locations which have not previously been subject to audit or adjusting the timing of some procedures.

We will report to the Audit and Risk Assurance Committee where we have identified fraud, obtained any information that indicates a fraud may exist or where we consider there to be any other matters related to fraud that should be discussed with those charged with governance.

Support to Audit Committees

We have developed a range of guidance and tools to help public sector Audit and Risk Assurance Committee achieve good corporate governance. This includes specific guidance on financial reporting and management during Covid-19

[Insights - National Audit Office \(NAO\)](#)

<https://www.nao.org.uk/report/guidance-for-audit-and-risk-committees-on-financial-reporting-and-management-during-covid-19/>

Climate Risk: A good practice guide for Audit and Risk Assurance Committees

Audit and Risk Assurance Committee play a key role in scrutinising and advising the Board and Accounting Officer on risks arising from climate change. This guide will help ARACs recognise how climate change risks could manifest themselves and support them in challenging senior management on their approach to managing climate change risks

[Climate change risk: A good practice guide for Audit and Risk Assurance Committees - National Audit Office \(NAO\) Report](#)

Corporate Governance Code for central government departments

The document was released in April 2017 and lays out the model for departmental boards, chaired by Secretaries of State and involving ministers, civil servants and non-executive board members. The principles outlined in the code will also prove useful for other parts of central government and they are encouraged to apply arrangements suitably adapted for their organisation.

<https://www.gov.uk/government/publications/corporate-governance-code-for-central-government-departments-2017>

Guidance for governance

Sustainability reporting

This guidance is to assist with the completion of sustainability reports in the public sector. It sets out the minimum requirements, some best practice guidance and the underlying principles to be adopted in preparing the information.

[2023-24 Sustainability Reporting Guidance.docx \(publishing.service.gov.uk\)](#)

Disclosure Guides

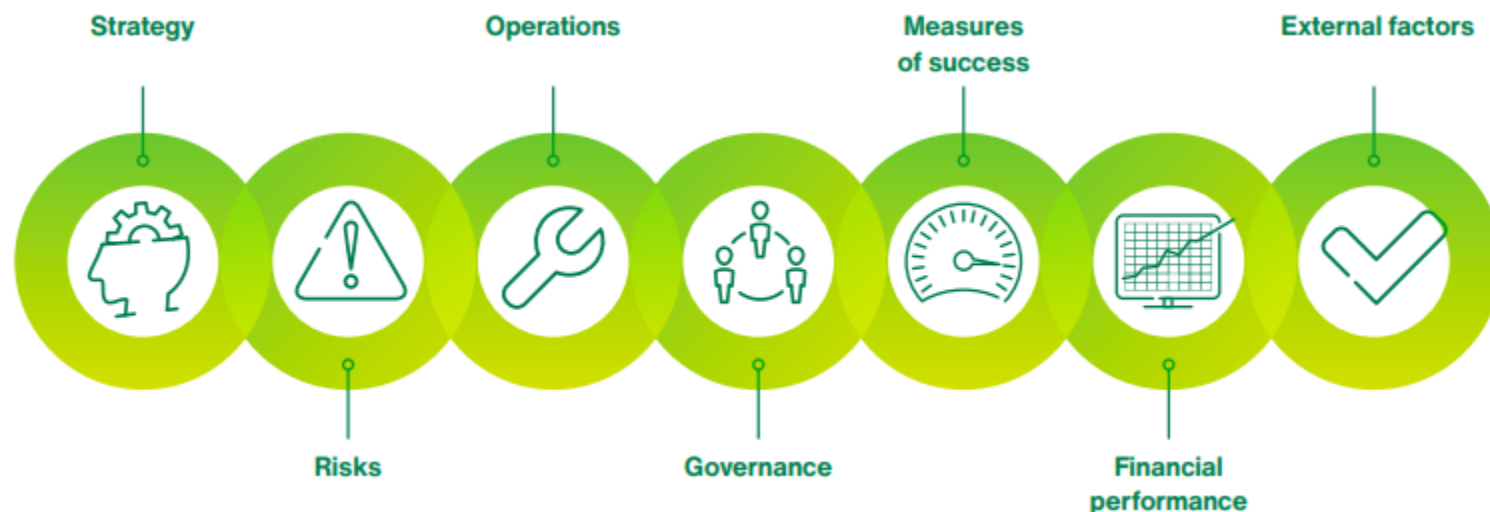
Our disclosure guides for audited entities help audited bodies prepare an account in the appropriate form and that has complied with all relevant disclosure requirements.

[Disclosure guide for entities who prepare financial statements in accordance with the Government Financial Reporting Manual \(FReM\) - National Audit Office \(NAO\) insight](#)

The Audit and Risk Assurance Committee plays a key role in scrutinising the Annual Report and Accounts on behalf of their Board and Accounting Officer, ensuring the quality of disclosures, its understandability for users, and that the body's performance is presented in a fair and balanced way.

To support the Audit and Risk Assurance Committee in this role, we have published our [Good Practice in Annual Reporting](#) guide.

The Guide, which we update annually, provides specific examples of best practice we identified during our review of a sample of annual reports. The good practice principles are grouped under the following headings: supporting accountability, transparency, accessibility and understandability (see next slide for further details). These principles should be evident across the common sections of an annual report (below).



Could you be a winner?

If you consider you meet these best practice principles and would like to nominate your organisation for the Building Public Trust Awards for your most recent Annual Report and Accounts, please speak to your NAO Team or contact us at Building.Public.Trust@nao.org.uk.

Essential features of a good annual report



Supporting accountability

- telling the story of the organisation in a fair and balanced way;
- compliance with the relevant reporting requirements; and
- clear action points to take forward.



Transparency

- frank and honest analysis;
- consideration of the challenges an organisation is facing;
- appropriate use of data; and
- quantification of risks and performance measures.



Accessibility

- highlights key trends in the financial statements;
- concise summaries of key points; and
- consideration of how the organisation engages with key stakeholders and meets their needs.



Understandable

Use of:

- plain English to explain difficult concepts;
- infographics and diagrams to communicate important messages; and
- clearly integrated structure to help users navigate it effectively.

Our **effectiveness tool** is a comprehensive way for ARACs in central government to assess their effectiveness on a regular basis.

The tool should be used in a way that is proportionate to the risks and complexity of each organisation.



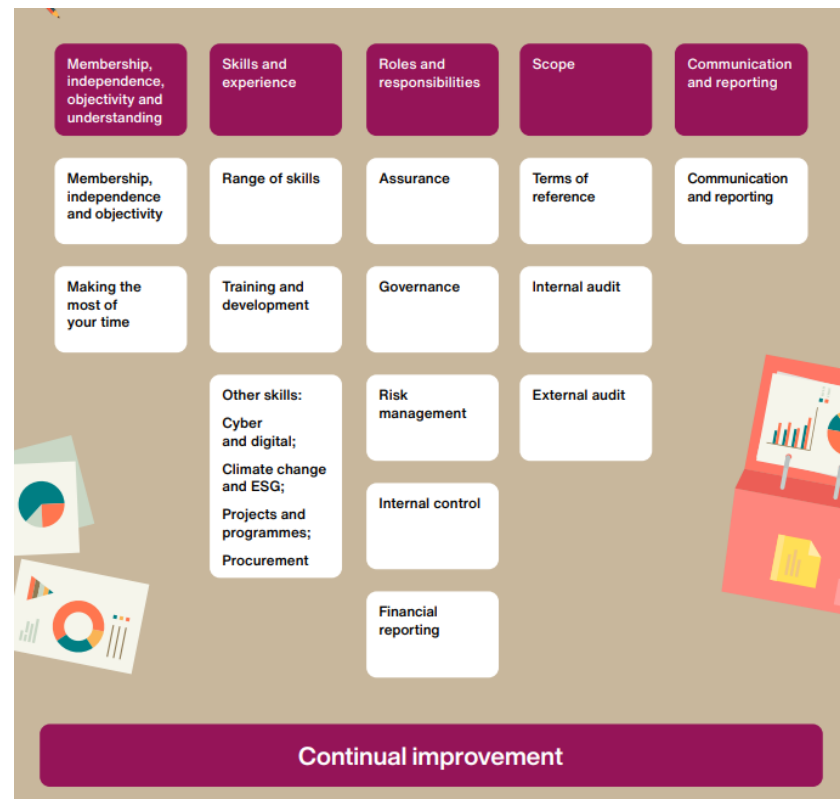
Our effectiveness tool outlines six areas for self-assessment:

- **membership, independence, objectivity and understanding**
- **skills and experience**
- **roles and responsibilities**
- **scope**
- **communication and reporting**
- **continual improvement**

There are two types of questions:

Essentials – these reflect the core expectations of ARACs in line with HM Treasury's *ARAC Handbook (2016)*. All organisations should answer these questions.

Good practice – these are drawn from wider guidance and allow ARACs to go beyond basic requirements and demonstrate best practice. If you have fewer resources and your organisation has a lower risk profile you may decide to address these areas on a cyclical basis.



Outcome Analyser



To gain an overall view of ARAC effectiveness, it is important that the individual views of all members are considered as a whole. Therefore we have created an accompanying **outcome analyser** which allows you to:

- generate an overall view of ARAC effectiveness; and
- drill down and analyse specific areas of strength or improvement on a section, sub-section and individual question level.