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HUMAN FERTILISATION AND EMBRYOLOGY ACT 1990

Account, prepared pursuant to Section 6(1) of the Human Fertilisation and Embryology Act 1990, of the Human Fertilisation and Embryology Authority for the year ended 31 March 2004, together with the Report of the Comptroller and Auditor General thereon. (In continuation of House of Commons Paper No. 1017 of 2002-2003)

Presented pursuant to Human Fertilisation and Embryology Act 1990

Human Fertilisation and Embryology Authority Account 2003-2004

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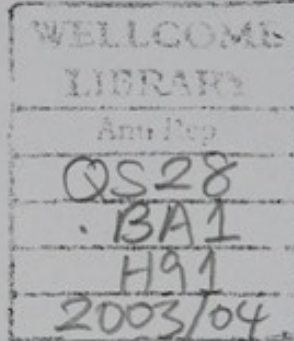
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Annual reports



Foreword

Background

The Human Fertilisation and Embryology Authority (HFEA) formally came into being on 7 November 1990 and began operating on 1 August 1991. The HFEA was created by the Human Fertilisation and Embryology Act 1990 to license and regulate human embryo research and specified forms of infertility treatment. The HFEA is an executive Non-Departmental Public Body sponsored by the Department of Health.

Statutory remit

One of the main statutory functions of the HFEA is to regulate, by means of a licensing system, centres undertaking infertility treatments involving the creation or use of human embryos outside the body, the storage or donation of embryos or gametes or research involving human embryos.

The HFEA is also required to maintain a register of information about all licensed treatments performed in the United Kingdom. This contains information about those receiving treatment, donors of gametes and embryos and any children born as a result of such treatments. At the age of 18 (or 16 if wishing to marry), people may enquire as to whether information held on the register shows that they were born as a result of this treatment, and, if so, whether they are related to a prospective spouse.

In addition, the HFEA has other statutory responsibilities including

- publicising the services provided by it and by the centres it licenses;
- publishing a Code of Practice giving guidance to centres on how they should carry out licensed activities;
- giving information and advice to donors, to people seeking treatment or storage, or to people considering such action; and
- keeping the field under review and providing advice to the Secretary of State for Health, if so requested.

Principal activities

The year 2003-2004 saw a continuation of major developments to strengthen the work of the HFEA, with significant improvements in regulation and communication with patients and stakeholders.

Regulation

The HFEA's primary objective remains the licensing and inspection of clinics and centres carrying out in vitro fertilisation, donor insemination and human embryo research. This includes regulation of the storage of gametes and embryos.

Improvements put in place during the year include

- random unannounced inspections established;
- new inspectors recruited and trained, and yearly validation of all inspectors initiated;
- pilot projects for patient involvement in inspections completed, following consultations with patients and professional groups;
- implementation of standard inspection protocols and processes; and
- Alert System established to disseminate to all licensed centres the lessons from untoward incidents.

During 2003-2004, there were 242 HFEA visits to licensed centres comprising

- 126 annual inspection visits;
- 45 audit visits;
- 23 visits for incident management;
- 6 variation inspections;
- 20 advisory visits;
- 18 practitioner inspections (embryo biopsy/Intra-Cytoplasmic Sperm Injection-ICSI);
- 1 visits to new centres; and
- 3 unannounced inspections.

During 2003-2004, 287 items of business were considered at 41 License Committee meetings; of these were

- 50 interim licenses;
- 63 variations to licenses;
- 8 short licenses;
- 31 applications for recognition of specific practitioners;
- 14 initial licenses;
- 8 revocations of license;
- 62 renewals;
- 32 Incidents; and
- 19 miscellaneous.

Established centres are subject to a three year licensing cycle composed of one full and two interim inspections.

Information management

The HFEA collects data from all licensed centres about IVF and donor insemination treatments, their outcomes and about every donor. A new database for the Data Register was developed with transfer and validation of data from old systems well underway, to ensure the organisation can fulfil its statutory obligation to provide information to offspring. The HFEA published a Directory of Clinics with user friendly information for patients on licensed centres, in collaboration with the Dr Foster organisation.

Communications

The HFEA launched a new website with sections for public, press and licensed centres. All information leaflets were updated and redesigned in consultation with user groups. A new leaflet on avoiding multiple births was published. HFEA held its first Research Conference in November 2003.

Policy

A report on Sex Selection was published, following public consultation. A 6th edition of the Code of Practice for licensed centres was published after wide-ranging consultations, including a clear policy on limiting the number of embryos transferred.

HFEA clinic audits

Detailed and intensive audit of clinics continued during 2003-2004 by a specialist HFEA audit team. In total, there were 45 clinic audit visits during the year. The findings of these audits demonstrated clearly that

- there was no significant under-reporting of treatment activity by licensed clinics; and
- there was no material variance between the value of fees billed by the HFEA and the clinics' declared activity.

Financial results for 2003-2004

HFEA made a surplus of £1,368,019 during the year. This includes the funding received to meet the provisions made in financial years 2001-2002 to 2003-2004 in relation to future pension liabilities relating to the transfer of the HFEA's by-analogy pension scheme into membership of the Principal Civil Service Pension Scheme (PCSPS). Excluding this funding, and the movement in pension provision in 2003-2004, the surplus would have been £148,004.

The total future pension liability at 31 March 2003 had been calculated by the Government Actuary's Department in the sum of £1,220,015. The net increase in provision needed to reflect this liability in the Income & Expenditure Account for the year ended 31 March 2004 amounted to £56,201.

The Department of Health undertook to fund the full liability of £1.276m and this was incorporated in their approved expenditure estimates. This money was received by HFEA on 27 June 2003, and payment in full settlement of the liability was made on 30 June 2003 to the Civil Superannuation Vote.

The National Audit Office (NAO) required us to follow the accounting treatment for this item contained in Treasury guidance. The full future pension liability as at 31 March 2003 was included in the Accounts for the year ended 31 March 2003, however, no provision was made for the funding subsequently received from the Department of Health. Accordingly the previously published balance sheet of the HFEA at 31 March 2003 showed net liabilities of £541,261.

The explanation provided by the Treasury and NAO for this treatment, and for not recognising a post balance sheet adjusting event under UK GAAP, is that under the normal conventions applying to parliamentary control over income and expenditure, such grants must be accounted for on a cash basis.

Therefore this funding could not be recognised until received, and accordingly the Accounts for the year ended 31 March 2004 now present the receipt of the funding for the provision that existed at 31 March 2003, and the movement in the pensions' liability in the period April - June 2003. The balance sheet shows at 31 March 2004 net assets and reserves of £1.68m.

It should however be noted that a prior year adjustment, the circumstances of which are detailed in note 2 to these Accounts, shows a restated balance sheet total as at 31 March 2003 of £154,769.

Disabled employees

The policy of HFEA is to make all reasonable adjustments to the working environment when required to meet the needs of disabled employees.

Equal opportunities

The HFEA is an equal opportunities employer with a policy of providing equality of opportunity for all staff members and job applicants. The HFEA does not discriminate against anyone on the grounds of age, race, colour, ethnic or national origin, gender, marital status, responsibility for children or dependents, disability, sexual orientation or religious or political beliefs.

Consultation with employees

The HFEA's policy is to involve staff and to consult them on relevant matters such as health, safety and welfare. Issues that may be of interest or concern are discussed at regular staff meetings. An appraisal system has been enforced throughout the year to improve performance review and the development of staff.

Payment of suppliers

The HFEA has adopted the principles of the 'Better Payment Practice Code' and works to ensure that all undisputed invoices are paid within 30 days. In 2003-2004 the HFEA paid 89% of invoices within 30 days (2002-2003: 90%) and 98% were paid within 60 days (2002-2003: 99%).

Future developments

During 2004-2005 the HFEA will work towards the following objectives

- To deliver high quality, effective and professional regulation of infertility services and storage of gametes and embryos, focusing on risk, safety and quality.
- To achieve a stronger, more efficient and publicly accountable process of regulating research.
- To develop an efficient and effective process for licensing centres as required by the EU tissue directive and to put in place a process for accreditation of all licensed clinics/ART laboratories.
- To deliver robust, comprehensive and timely information management, which informs safety and quality.
- To put in place a strategy for supporting and involving patients.
- To communicate effectively with all stakeholders and the public, to increase understanding of the HFEA's role and the regulation of IVF and research, enabling informed patient choice and public debate.
- To develop and implement clear policies based on evidence, ethical considerations and public views - supporting continuous improvements in quality and safety and appropriate access to new technologies.
- To ensure through clear systems that the Authority meets its statutory financial and corporate responsibilities demonstrating efficiency, effectiveness and value for money.
- To agree and implement a Human Resources Strategy valuing staff, ensuring capacity and skills meet the organisation's needs and the development of integrated work patterns.
- To build partnerships with other statutory and voluntary organisations.

Ms Angela McNab
Chief Executive

19 July 2004

Annex A

Authority Members

Membership of the Human Fertilisation and Embryology Authority during the year 2003-2004 was as follows

Suzi Leather (Chair)

Professor Thomas Baldwin (re-appointed 30 September 2003)

Mrs Jane Denton (Director of Sub-committees)

Professor David Barlow (re-appointed 24 November 2003)

Professor Christopher Barratt

Professor Peter Braude

Mr Ivor Brecker (re-appointed 30 September 2003)

Ms Clare Brown

Professor Iain Cameron (re-appointed 30 September 2003)

Professor Andrew Grubb (retired 6 November 2003)

Professor Neva Haites

Rt Revd Richard Harries (appointed 24 November 2003)

Ms Jennifer Hunt (appointed 24 November 2003)

Ms Emily Jackson (appointed 12 June 2003)

Dr Maybeth Jamieson

Mr Simon Jenkins (re-appointed 30 September 2003)

Mr Walter Merricks

Ms Sara Nathan

Rt Revd Dr Michael Nazir-Ali (retired 6 November 2003)

Ms Sharmila Nebhrajani

Statement of the Authority's and Chief Executive's responsibilities

Authority members' responsibilities

Under section 6(1) of the Human Fertilisation and Embryology Act 1990, the Human Fertilisation and Embryology Authority is required to prepare a statement of accounts for each financial year in the form and on the basis determined by the Secretary of State, with the consent of the Treasury. The accounts are prepared on the accruals basis, and must show a true and fair view of the Authority's state of affairs at the year-end and of its income and expenditure, total recognised gains and losses, and cash flow for the financial year.

In preparing the accounts the Authority is required to

- observe the Accounts Directions issued by the Secretary of State, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards have been followed, and disclose and explain any material departures in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Authority will continue in operation.

Accounting Officer's responsibilities

The Accounting Officer of the Department of Health has designated the Chief Executive of the Human Fertilisation and Embryology Authority as the Accounting Officer for the Authority. Her relevant responsibilities as Accounting Officer, including her responsibility for the propriety and regularity of the public finances for which she is answerable and for the keeping of proper records, are set out in the Non Departmental Public Bodies' Accounting Officer Memorandum.

Statement on Internal Control

Scope of responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the HFEA's policies, aims and objectives as set out in the Human Fertilisation and Embryology Act 1990, the Authority's Business Plan, and by Ministers within the Department of Health (DH), whilst safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in DH correspondence.

The Management Statement, agreed between the Department of Health and the HFEA, sets out the accountability framework within which the Authority's work will be monitored. This requires

- prior approval by the Department of the HFEA's annual Business Plan, including an assessment of risks to the organisation;
- submission to the Department of regular monitoring information on progress in implementing the Plan; and
- an annual accountability meeting between DH Ministers and the Chair and Chief Executive of the HFEA.

DH representatives customarily attend Authority meetings, and meetings of key standing committees (Organisation & Finance, Audit, Information Management Programming Board). The rapid pace of change within the HFEA has continued throughout 2003-2004, and therefore close liaison has been maintained with DH. In addition to the formal accountability framework, there have been monthly meetings between the Department's Sponsoring Division and the Authority's Senior Management Team (SMT).

The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.

In the Statement of Internal Control of 10 July 2003, I gave a commitment that the risk management framework established in 2003-2004 would be embedded within the organisation, and integrated into the business planning process. This has been implemented. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the HFEA's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control was in place in the HFEA by 31 March 2004 and up to the date of approval of the annual accounts, and accords with Treasury guidance.

Capacity to handle risk

The Authority is very aware that the HFEA is operating in a high risk area with a high public profile, and hence aware of the importance that risks are identified and managed appropriately. The policy underpinning the HFEA's risk management process aims to help members and staff to consider risk, the probability and impact in a consistent manner; and to make clear risk exposure may vary with new activities, or changes to existing activities.

It is recognised that effective risk management must be resourced, and this is reflected in the development of the organisation and staffing levels. An experienced Senior Management Team (SMT) is in place, and there has been continued expansion of skilled staff in key areas, such as Regulation, IT and Communications.

The HFEA policy makes clear that risk management is the responsibility of all staff; however, it is recognised that the process needs strong leadership. Risk management is led at SMT level by the Director of Resources and Corporate Development; the Head of Corporate Development has specific responsibility for supporting the development of risk management across the organisation. All operational managers are actively involved in risk management, including membership of the Authority-wide Risk Management Group (RMG).

The risk and control framework

The HFEA aims to operate with a well-balanced regard for risk. The risk strategy defines risk as the failure to perform the Authority's statutory functions, and inability to achieve the Business Plan objectives, whether through negative action, or inaction. This could also include the failure to identify and exploit new opportunities. The main focus for consideration of risk is the High Level Risk Register. This was initially developed through workshops with staff in all departments, and identifies the probability and impact of each risk and the related controls.

The process of rapid change within the HFEA continued during 2003-2004. The modernisation of all the functions of the HFEA is being undertaken against a background of close scrutiny by our stakeholders; continued media interest; and significant external change (EU Tissue Directive, new Government policy on donor anonymity, and a review of the 1990 Human Fertilisation & Embryology Act). An overarching risk, therefore, is the pressure of the growing agenda, and the threat to the reputation of the HFEA if we fail to achieve key business objectives, and are unable to meet the expectations of our stakeholders. These are central themes in the management of risk in the HFEA.

There was continued streamlining of regulation, communications, and policy development during 2003-2004. This included a new Alert system to improve our response to adverse incidents in licensed centres and disseminate learning from such events; the increasing use of risk assessment to inform the inspection process, including the introduction of unannounced inspections.

Other key developments during the year included

Information Management

Continued progress was made during the year on the development of the HFEA's information systems, to enable the Authority to fulfil its statutory obligations. The transfer of data from the legacy systems has been completed, and is now being validated. The development has begun of an Electronic Data Interchange (EDI) system between the HFEA and licensed centres, and the preparation for the historic audit of records (HAP). The whole register development is being managed within a PRINCE framework, and overseen by a high-level Information Management Programming Board, chaired by myself, and involving members and an independent IT expert.

Audit

The detailed audit of reporting of treatment activity by clinics was maintained during 2003-2004. The findings of this audit again showed that there was no significant under-reporting of treatment activity by licensed clinics. As promised last year, the work of the specialist HFEA audit team has been integrated more closely within the wider inspection process.

EU Tissues and Cells Directive

This introduces new legal requirements for all units involved in the donation, procurement, processing, storage and distribution of gametes and embryos; and brings within the scope of regulation many units which have not been covered hitherto. The HFEA is likely to be the competent authority in relation to gametes and embryos under the legislation, which will bring this Directive into effect. This will expand the remit of the HFEA and have major implications for the whole organisation, alongside our existing programme of major change. We have begun preparing for the implementation of the Directive.

Freedom of Information Act

The implementation of public access rights under FOI presents a major challenge to the HFEA, given the often controversial nature of our work and the likely high level of interest it generates. We have begun the work to ensure the HFEA can respond appropriately to requests made under FOI.

Work on these and other projects will continue in the current year.

Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the HFEA, who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the results of my review of the effectiveness of the system of internal control by the Authority, the Audit Committee, the SMT and the RMG, and a plan to address weaknesses and ensure continuous improvement of the system is in place.

The Risk Strategy introduced in 2003 includes an organisation-wide process for reviewing risk and monitoring implementation of controls. This takes place at departmental level, the SMT, Standing Committees and at the Authority itself.

- **The Authority:** Reviews the effectiveness of risk management twice during the year, including a full report from the Audit Committee at the year end.
- **The Audit Committee:** The Committee is the main source of reassurance to the Authority on the effectiveness of risk management, and receives a report on risk at each meeting. There will be a formal review in September, and a report submitted to the Authority at the year end.
- **Other Standing Committees:** The work of the HFEA is led by a series of Member Committees which reflect the varied and complex functions of the Authority. All the committees have reviewed strategic risks in their area and the related controls during the year.
- **SMT:** Directors review the strategic risks every two months, and are closely involved in ensuring risks are identified and managed.
- **Risk Management Group (RMG):** This group, which includes all operational managers, is charged with the regular monitoring of emerging risks, the implementation of controls over known risks; and making recommendations to the SMT. The Group is facilitated and supported by the Head of Corporate Development.
- **Other staff:** It is recognised that all staff must be involved in, and have some understanding of, risk management. The individual members of the RMG are a key focus in developing this awareness. Work has begun to review detailed, departmental risk registers, and the work being done to address them.
- **Internal Audit:** The Internal Audit Team has reviewed the management of key areas of work during the year, and will report on these to the Audit Committee.

The value of the corporate risk process now in place is in highlighting the inter-relationship of key risks, and the importance of a coordinated approach to managing them. It is also recognised that the management of risk is an integral part of the wider business planning process, and we will continue to strengthen risk management as part of our 2004-2005 Business Plan.

Ms Angela McNab
Chief Executive

19 July 2004

Certificate and Report of the Comptroller and Auditor General to the Houses of Parliament

I certify that I have audited the financial statements on pages 13 to 28 under Section 6(4) of the Human Fertilisation and Embryology Act 1990. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 16 and 17.

Respective responsibilities of the Authority, the Chief Executive and Auditor

As described on page 7 the Authority and Chief Executive are responsible for the preparation of the financial statements in accordance with the Human Fertilisation and Embryology Act 1990 and directions made thereunder by the Secretary of State with the approval of the Treasury, and for ensuring the regularity of financial transactions. The Authority and Chief Executive are also responsible for the preparation of the Foreword. My responsibilities, as independent auditor, are established by statute and I have regard to the standards and guidance issued by the Auditing Practices Board and the ethical guidance applicable to the auditing profession.

I report my opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Human Fertilisation and Embryology Act 1990 and directions made thereunder by the Secretary of State, and whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if the Authority has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I review whether the statement on pages 8 to 10 reflects the Authority's compliance with Treasury's guidance on the Statement on Internal Control. I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered whether the Accounting Officer's Statement on Internal Control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures.

Basis of audit opinion

I conducted my audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Authority and Chief Executive in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by error, or by fraud or other irregularity and that, in all material respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I have also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In my opinion

- the financial statements give a true and fair view of the state of affairs of the Human Fertilisation and Embryology Authority at 31 March 2004 and of the surplus, total recognised gains and losses and cash flows for the year then ended and have been properly prepared in accordance with the Human Fertilisation and Embryology Act 1990 and directions made thereunder by the Secretary of State with the approval of Treasury; and
- in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

I have no observations to make on these financial statements.

John Bourn
Comptroller and Auditor General

19 July 2004

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Income and Expenditure Account for the year ended 31 March 2004

	Notes	2003-2004 £	2002-2003 Restated £
Income			
Gross income	2	7,471,860	6,228,562
Transfer from government grant reserve (capital spend)	11	120,724	79,390
		<u>7,592,584</u>	<u>6,307,952</u>
Expenditure			
Staff costs	3	3,665,204	2,523,912
Other operating charges	4	3,658,652	3,028,529
Depreciation	5	112,535	77,472
Loss/(surplus) on disposal of fixed assets		8,189	(353)
Total expenditure		<u>7,444,580</u>	<u>5,629,560</u>
Operating surplus		148,004	678,392
<i>Exceptional items</i> Increase in pension provision for year	9	(56,201)	(288,330)
Funding received for pension provision	9	1,276,216	0
Notional interest (capital charges)	1(g)	(32,055)	3,106
Surplus on ordinary activities		1,335,964	393,168
Write back of notional interest	1(g)	32,055	(3,106)
Surplus for the financial year		1,368,019	390,062
Retained (deficit) brought forward - as restated	11	(44,389)	(434,451)
Retained surplus/(deficit) carried forward	11	<u>1,323,630</u>	<u>(44,389)</u>

All operations are continuing.

Statement of Total Recognised Gains and Losses for the year ended 31 March 2004

	2003-2004 £	2002-2003 Restated £
Surplus for the financial year	1,368,019	390,062
Unrealised surplus on revaluation of fixed assets	0	0
Total recognised gains for the year	1,368,019	390,062
Prior period adjustment (note 2)	696,030	0
Total (losses) recognised since last annual report	<u>2,064,049</u>	<u>390,062</u>

The notes on pages 16 to 28 form part of these accounts.

Balance Sheet as at 31 March 2004

	Notes	31 March 2004 £	31 March 2003 Restated £
Fixed assets	5	353,360	199,158
Current assets			
Debtors: amounts falling due within one year	6	1,386,541	1,346,255
Cash at bank and in hand	17	307,947	29,191
Creditors: amounts falling due within one year	7	(370,858)	(199,820)
Net current assets		<u>1,323,630</u>	<u>1,175,626</u>
Long term liabilities			
Provisions for liabilities and charges	9	0	(1,220,015)
Total assets less current liabilities		<u>1,676,990</u>	<u>154,769</u>
Financed by			
Capital and reserves			
Government grant reserve (capital spend)	11	353,360	186,641
Income and expenditure reserve	11	1,323,630	(44,389)
Revaluation reserve	11	0	12,517
		<u>1,676,990</u>	<u>154,769</u>

The notes on pages 16 to 28 form part of these accounts.

Ms Angela McNab
Chief Executive

19 July 2004

Cash Flow Statement for the year ended 31 March 2004

	Notes	2003-2004 £	2002-2003 £
Operating activities			
Net cash inflow/(outflow)	18(a)	278,756	(6,195)
Capital (expenditure)/income			
Purchase of fixed assets	5	(274,926)	(102,388)
Cash received on disposal of assets		0	353
Net cash inflow/(outflow) before financing		3,830	(108,230)
Financing			
Receipts of government grants for purchase of fixed assets	11	274,926	102,388
Net cash inflow from financing		274,926	102,388
Increase/(decrease) in cash	18(b)	278,756	(5,842)

The notes on pages 16 to 28 form part of these accounts.

Notes to the accounts

1 Accounting policies

a Accounting convention

The HFEA's accounts are prepared in accordance with the provisions of the Human Fertilisation and Embryology Act 1990 and an Accounts Determination issued by the Secretary of State for Health in May 1997 (reproduced as an appendix to these accounts).

These accounts are prepared, in accordance with applicable accounting standards, under the historical cost convention modified to allow for the revaluation of fixed assets. Without limiting the information given, the accounts meet the accounting and disclosure requirements of the Companies Acts and Accounting Standards issued or adopted by the Accounting Standards Board so far as those requirements are appropriate.

b Fixed assets

Fixed Assets include tangible and intangible fixed assets and the costs of acquiring or creating computer systems or software. Only items, or groups of related items, costing £1,000 or more and with individual values over £250, are capitalised. Those costing less are treated as revenue expenditure.

Assets purchased prior to the current financial year are indexed annually using the Office for National Statistics' indices if there is a material difference between historic cost and current replacement cost. In 2003-2004, HFEA decided that no material adjustment was necessary and therefore modified historic cost accounting has not been applied in financial year 2003-2004.

c Depreciation and amortisation

Depreciation is provided on all tangible fixed assets on a monthly basis from the date of acquisition at rates calculated to write off the cost of each asset evenly over its expected useful life. Expected useful lives are as follows

Computer equipment and software	three years
Office equipment	four years
Furniture, fixtures and fittings	four years

Amortisation is provided on intangible fixed assets, which comprise software licenses, on a monthly basis at a rate calculated to write off the cost of each intangible asset over its expected useful life. The expected useful life of these software licenses is 3 years.

d Operating leases

Operating leases are charged to the accounts on a straight line basis over the lease term.

e Register of information

Expenditure on development of the computer programme for the Register of Information is charged to the Income and Expenditure Account as it is incurred.

f Government grants

Government grants received for revenue expenditure are credited to income in the year to which they relate. Government grants received for capital expenditure are credited to the government grant reserve and released to the Income and Expenditure Account to match depreciation and downward indexation, where appropriate.

g Notional charges

In accordance with Treasury guidance, notional interest at 3.5% (2002-2003 6%) of the average capital employed has been debited in the Income and Expenditure Account amounting to £32,055 (2002-2003 - restated and credited, £3,106).

h Pensions

Past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS.) The defined benefit elements of the schemes are unfunded and are non-contributory except in respect of dependants' benefits. The HFEA recognises the expected cost of these elements on a systematic and rational basis over the period during which it benefits from employees' services by payment to the PCSPS of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS. In respect of the defined contribution elements of the schemes, the HFEA recognises the contributions payable for the year.

i Fees and Charges Guide

From 2003-2004 it was agreed with the Department of Health that the HFEA is a single purpose organisation. These accounts therefore no longer show a note of segmental information for different services or forms of services, as required by HM Treasury's The Fees and Charges Guide.

2 Gross income

Gross income is made up of Government grants received in the year and of license fee and other incomes which are recorded on an accruals basis.

	2003-2004 £	2002-2003 £ Restated
Analysis of income		
<i>License Fee income</i> annual billing	0	874,094
monthly billing	3,528,427	2,346,464
Other income	7,359	2,392
Cash received from the Department of Health	4,211,000	3,108,000
Less capital grant element	(274,926)	(102,388)
	<u>3,936,074</u>	<u>3,005,612</u>
	<u>7,471,860</u>	<u>6,228,562</u>

Income received from the Department of Health included contributions from the devolved administrations for Scotland, Wales and Northern Ireland.

As from 1 April 2002, the process for billing centres for License fees was changed. Previously, centres were invoiced once per year close to the anniversary of license renewal date, to cover all billable treatment cycles reported in the preceding 12 months. From April 2002, treatment cycles have been reported each month and invoiced in the following month. The point at which a cycle becomes billable is assumed to be when it is reported under these monthly invoicing procedures.

An accrual was made as at 31 March 2003 to include income from cycles reported in March 2003, which were invoiced after the year end. Cycles reported up to March 2002 and not previously invoiced continued during 2002-2003 to be invoiced at the license renewal anniversary date. The effect of the change in process was to bring forward the timing of payments by centres with a consequential one-off rise in income to HFEA in 2002-2003. However, over a multi-year period neither income to HFEA, nor payments by centres was raised by this change in invoicing process.

During 2003-2004 HFEA developed its systems to enable fuller analysis of treatment forms received and hence enable income to be analysed by the time of treatment. The Accounts for 2002-2003 stated that it was planned

that the Accounts for financial year 2003-2004 would reflect a new accounting treatment, recognising income at the time of treatment rather than when reported to HFEA.

These Accounts have accordingly been prepared on the basis of recognising income at the time of treatment date, to more accurately reflect the accounting value of activity undertaken in the year. The opening fee income accrual has been adjusted to reflect the actual value of treatments undertaken prior to 31 March 2003 but not invoiced until after that date. The impact of this change in accounting policy on the results for the year ended 31 March 2003 is to increase license fee income and debtors by £696,030 and this is shown in the prior year adjustment which is disclosed in note 11.

The closing income accrual has likewise been based on the value of treatments undertaken during the year ended 31 March 2004 but not invoiced until after 1 April 2004. The impact of this change in accounting treatment for financial year 2003-2004 has been to decrease license fee income by £161,392 and to increase debtors as at 31 March 2004 by £534,638. Under the former accounting policy, license fee income would have been reported at £3,689,819 and license fee debtors would have been stated at £659,172.

3 Staff costs

	2003-2004	2002-2003
	£	£
All staff		
Salaries - HFEA staff	2,462,266	1,381,525
Salaries - seconded staff	112,621	138,174
Social security costs	238,264	128,721
Superannuation costs - seconded staff	21,232	24,770
Superannuation costs - HFEA staff	293,949	131,413
Agency/temporary staff	270,275	561,119
Compensation payment	130,000	31,600
	3,528,607	2,397,322
Members' costs	136,597	126,590
Total	3,665,204	2,523,912

The average monthly number of full time and part-time staff employed, including secondees and temporary staff, during the year was as follows

	2003-2004	2002-2003
Management	5	3
Administrative	86	54
	91	57

Remuneration of key management

	2003-2004	2002-2003
	£	£
Former Chief Executive (to 17 November 2002) : Dr Maureen Dalziel		
Total Paid to Seconding Body, the London School of Hygiene and Tropical Medicine (for the period November 2002 - February 2003)	19,086	47,715
Compensation payment made to Dr Dalziel on early termination of office (note 20)	130,000	0

Current Chief Executive : Ms Angela McNab

Ms Angela McNab was on secondment from the Department of Health during the financial year until 1 September 2003, when Ms McNab joined the HFEA as a member of staff. During the period to 1 September 2003 HFEA made payments to the Department of Health in respect of this secondment totalling £52,042 (during 2002-2003, for the period 11 November 2002 - 31 March 2003, £45,808). HFEA was not responsible for the pension arrangements of Ms McNab during this period.

In the period 1 September 2003 to 31 March 2004, the salary and pension entitlements of Ms McNab from HFEA were as follows

Column 1 Salary (£)	Column 2 Real increase in pension at age 60 (£)	Column 3 Real increase in lump sum (£)	Column 4 Total accrued pension at age 60 at 31 March 2004 (£)	Column 5 Related lump sum at 31 March 2004 (£)	Column 6 CETV at 31 March 2003 (nearest £000)	Column 7 CETV at 31 March 2004 (nearest £000)	Column 8 Real increase in CETV as funded by HFEA (nearest £000)
£55,000-£60,000	£0-£2,500	£0-£2,500	£0-£5,000	£0-£5,000	0	11	13

Other senior managers

The Resource Accounting Manual requires the HFEA to provide information on the salary and pension rights of the named individuals who are the most senior managers of the HFEA, subject to the individuals concerned consenting to disclosure.

The salary and pension entitlements of the Senior Managers in HFEA during the year were as follows

Name of Senior Manager	Column 1 Salary (£)	Column 2 Real increase in pension at age 60 (£)	Column 3 Real increase in lump sum (£)	Column 4 Total accrued pension at age 60 at 31 March 2004 (£)	Column 5 Related lump sum at 31 March 2004 (£)	Column 6 CETV at 31 March 2003 (nearest £000)	Column 7 CETV at 31 March 2004 (nearest £000)	Column 8 Real increase in CETV as funded by HFEA (nearest £000)
Trish Davies* Commenced 1 March 2004	£5,000 - £10,000	£0 - £2,500	£0 - £2,500	£0 - £5,000	£0 - £5,000	0	1	0
Ann Furedi Left 30 May 2003	£10,000 - £15,000	£0 - £2,500	£0 - £2,500	£0 - £5,000	£0 - £5,000	9	11	2
Paul Gemmill Commenced 27 May 2003, Left 12 December 2003	£35,000 - £40,000	£0 - £2,500	£2,501 - £5,000	£0 - £5,000	£5,001 - £10,000	22	33	13
Barry MacDonald*	£75,000 - £80,000	£0 - £2,500	£2,501 - £5,000	£0 - £5,000	£5,001 - £10,000	16	33	19
David Tellis* Appointed 27 May 2003	£65,000 - £70,000	£0 - £2,500	£0 - £2,500	£0 - £5,000	£0 - £5,000	4	14	7
Tim Whitaker* Commenced 1 June 2003	£55,000 - £60,000	£0 - £2,500	£0 - £2,500	£0 - £5,000	£0 - £5,000	0	10	12

* Denotes current staff

Salary

'Salary' includes gross salary, performance pay or bonuses, overtime, and any other allowance to the extent that it is subject to UK taxation.

Pension

Full details in respect of the pension arrangements in place for HFEA staff are provided in note 8 to these Accounts.

Columns 6 and 7 of the foregoing tables show the member's Cash Equivalent Transfer Value (CETV) accrued at the beginning and the end of the reporting period. Column 8 reflects the increase in CETV effectively funded by the employer. It takes account of the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

A CETV is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The CETV figures, and from 2003-2004 the other pension details, include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the PCSPS arrangements and for which the Civil Superannuation Vote has received a transfer payment commensurate to the additional pension liabilities being assumed. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

Remuneration of Authority members

	2003-2004	2002-2003
Chairman - Suzi Leather		
Remuneration - in the bands of	£30,000-£35,000	£20,000-£25,000

Pension contributions in the band of £4,000-£4,500 were made on behalf of Suzi Leather in 2003-2004 (2002-2003: in the band of £0-£2500). The real increase in pension at age 60 during the year was in the band £0-£2,500 (2002-2003: £0-£2500). The total accrued pension at 60 as at 31 March 2004 was in the band £0-£5,000 (2002-2003: £0-£5,000) At the balance sheet date, Suzi Leather was aged 47.

Members costs (including Chairman)

	2003-2004	2002-2003
	£	£
Total fees payable to members	121,928	115,893
Social security costs	10,338	8,334
Superannuation costs	4,331	2,363
	<u>136,597</u>	<u>126,590</u>

The Deputy Chairman received a fee of £185 per day. Members received a fee of £169 per day. No pension contributions were paid on behalf of any Board Member other than the Chairman. Remuneration payable to individual members for attendance at meetings and inspections during the financial year was in the following bands

£0 - £5,000

Professor David Barlow
 Professor Peter Braude
 Professor Iain Cameron
 Professor Andrew Grubb
 Rt Revd Richard Harries
 Ms J Hunt
 Ms E Jackson
 Mr Simon Jenkins
 Rt Revd Dr Michael-Nazir-Ali
 Ms Sharmila Nebhrajani

£5,001 - £10,000

Professor Thomas Baldwin (Deputy Chair)
 Professor Christopher Barratt
 Mr Ivor Brecker
 Ms Claire Brown
 Mrs Jane Denton (Director of Sub-Committees)
 Professor Neva Haites
 Dr Maybeth Jamieson
 Mr Walter Merricks
 Ms Sara Nathan

4 Other operating charges

	2003-2004	2002-2003
	£	£
<i>Operating lease payments</i>		
Land and buildings	273,149	246,880
Other leases	13,042	10,533
Accommodation (note 1)	1,350,915	172,628
Travel and subsistence	241,375	211,095
Attendance fees - inspectors	52,283	26,192
Professional and administrative fees	288,825	1,005,435
<i>Audit fees</i>		
External (note 2)	56,500	32,500
Internal	21,752	21,620
Register of information (note 3)	465,359	305,596
Stationery, photocopying and printing	264,404	178,023
Telephones and postage	78,598	68,352
Training and development	100,175	122,842
Recruitment and advertising	167,910	345,220
Conferences and meeting expenses	90,607	39,305
Library and reading materials	44,468	29,774
Sundry office equipment	52,849	83,120
IT costs (including website)	52,972	95,806
Miscellaneous	43,469	33,608
Total	<u>3,658,652</u>	<u>3,028,529</u>

Notes

- 1 Accommodation costs in 2003-2004 include one off costs of £558,000 associated with the move of HFEA from its previous premises into a single office. These costs, approved by the Department of Health, settled outstanding lease obligations in respect of the main building HFEA previously occupied. Other such one-off costs included removals, fit out and IT installations at the new premises.
- 2 The external audit fee from the NAO represents the cost for the audit of the financial statements carried out by the Comptroller and Auditor General. This account does not include fees in respect of non-audit work. No such work was undertaken by the NAO on behalf of the HFEA during the year. Approximately £20,000 of the fee charged for the year relates to additional fees charged for audit work undertaken during 2002-2003.
- 3 Costs charged to the register of information include some expenditure relating to this project which would normally fall within other expenditure lines, such as some accommodation and related costs, recruitment and legal and professional fees, IT costs, and travel and subsistence.

5a Tangible fixed assets as at 31 March 2004

	Computer equipment £	Office equipment £	Furniture and fittings £	Totals £
Cost/valuation as at 31 March 2003	221,933	206,209	88,380	516,522
Additions	192,233	36,256	22,586	251,075
Disposals	(19,111)	(95,991)	(70,480)	(185,582)
As at 31 March 2004	395,055	146,474	40,486	582,015
Depreciation as at 31 March 2003	84,585	150,206	85,102	319,893
Charge for the year	84,233	21,659	1,878	107,770
Disposals	(14,200)	(95,991)	(67,202)	(177,393)
As at 31 March 2004	154,618	75,874	19,778	250,270
Net book value (NBV)				
At 31 March 2004	240,437	70,600	20,708	331,745
At 31 March 2003	137,348	56,003	3,278	196,629
Increase/(decrease) in NBV	103,089	14,597	17,430	135,116

5b Intangible fixed assets as at 31 March 2004 and summary of fixed assets

	Software Licenses £	Total intangible assets £	Total tangible fixed assets £	Grand total of fixed assets £
Cost/valuation as at 31 March 2003	3,035	3,035	516,522	519,557
Additions	23,851	23,851	251,075	274,926
Disposals	0	0	(185,582)	(185,582)
As at 31 March 2004	26,886	26,886	582,015	608,901
Amortisation/depreciation as at 31 March 2003	506	506	319,893	320,399
Charge for the year	4,765	4,765	107,770	112,535
Disposals	0	0	(177,393)	(177,393)
As at 31 March 2004	5,271	5,271	250,270	255,541
Net book value (NBV)				
At 31 March 2004	21,615	21,615	331,745	353,360
At 31 March 2003	2,529	2,529	196,629	199,158
Increase/(decrease) in NBV	19,086	19,086	135,116	154,202

As recorded in note 1(b) to these Accounts, modified historic cost accounting has not been applied to fixed assets in these Accounts this year, as there is no material difference between historic cost and current replacement cost.

6 Debtors: amounts falling due within one year

	31 March 2004	31 March 2003 Restated
	£	£
License fee and accrued income	1,193,810	1,158,992
Other debtors	114,189	16,425
Pre-payments	78,542	170,838
	<u>1,386,541</u>	<u>1,346,255</u>

7 Creditors: amounts falling due within one year

	31 March 2004	31 March 2003
	£	£
Trade creditors	57,396	2,240
Other taxes and social security	1,390	4,486
Accruals and deferred income	312,072	193,094
	<u>370,858</u>	<u>199,820</u>

8 Pension arrangements (HFEA staff)

As per 2001 Statutory Instrument No. 1587, HFEA staff were conditionally admitted to the Principal Civil Service Pension Scheme (PCSPS) as from 1 April 2000, transferring from the HFEA by-analogy Scheme.

The PCSPS is an unfunded multi-employer defined benefit scheme but HFEA is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out as at 31 March 2003. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk).

Pension benefits are provided through the PCSPS arrangements. From 1 October 2002, staff may be in one of three statutory based 'final salary' defined benefit schemes (classic, premium, and classic plus). The Schemes are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, and classic plus are increased annually in line with changes in the Retail Prices Index. New entrants after 1 October 2002 may choose between membership of premium or joining a good quality 'money purchase' stakeholder arrangement with a significant employer contribution (partnership pension account).

For 2003-2004, employers' contributions of £272,656 were payable to the PCSPS (2002-2003 £133,776) at one of four rates in the range 12 to 18.5 per cent of pensionable pay, based on salary bands. The scheme's Actuary reviews employer contributions every four years following a full scheme valuation. Rates will remain the same next year, subject to revalorisation of the salary bands, but will increase from 2005-2006. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

In addition, employer contributions of 0.8 per cent of pensionable pay were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees.

Employee contributions are set at the rate of 1.5% of pensionable earnings for classic and 3.5% for premium and classic plus. Benefits in classic accrue at the rate of 1/80th of pensionable salary for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum (but members may give up (commute) some of their pension to provide a lump sum). Classic plus is essentially a variation of premium, but with benefits in respect of service before 1 October 2002 calculated broadly as per classic.

Further details about the PCSPS arrangements can be found at the website www.civilservice-pensions.gov.uk.

Employees joining after 1 October 2002 could opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employers' contributions of £25,624 were paid during financial year 2003-2004 (2002-2003 £nil) to one or more companies chosen by these employees from a panel of four appointed stakeholder pension providers. Employer contributions are age-related and range from 3 to 12.5 per cent of pensionable pay. Employees do not have to contribute but where they do make contributions, HFEA will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution).

£223 in contributions were due to the partnership pension providers at the balance sheet date. No contributions were prepaid at that date.

9 Provisions for liabilities and charges

	2003-2004 £	2002-2003 £
Accrued pension liability brought forward	1,220,015	667,513
Movement in liability for pensions transfer during the year		
Opening creditor	0	216,638
Payments to/from JSS	0	(15,354)
Current year notional pension costs	0	62,888
Increase in provision for year	56,201	288,330
Write back of total provision for year	<u>(1,276,216)</u>	<u>0</u>
Total provision for liabilities and charges	<u>0</u>	<u>1,220,015</u>

Further information about the HFEA's transfer from its by-analogy pension scheme into membership of the PCSPS, together with details of the write back of the provision for the year, is provided in the Foreword to these Accounts, under Financial Results for 2003-2004.

10 Post balance sheet events

As a NDPB, the HFEA is classified as an arm's length body.

In October 2003, the Secretary of State for Health announced his intention to review the Department of Health's Arm's Length Bodies. On 20 May 2004 he outlined the first stage of this review.

There are 42 separate arm's length bodies which employ 22,000 staff with a combined budget of £2.5bn. The Secretary of State announced that by 2007-2008 there will be a 50% reduction in the number of arm's length bodies reducing total expenditure by £0.5bn and staff posts by 25%.

The final outcome of the review should be announced before the Parliamentary summer recess. As at the date of signing these financial statements, the implications of the review for the HFEA have not yet been announced.

11 Government grant reserve (capital spend), capital and reserves

	Government Grant Reserve (Capital Spend) £	Income and Expenditure Reserve £	Revaluation Reserve £
Balance at 31 March 2003	186,641	(740,419)	12,517
Prior year adjustment		696,030	
At beginning of year as restated	186,641	(44,389)	12,517
2003-2004 capital grant	274,926		
Transfer to Income and Expenditure Account for depreciation	(112,535)		
Loss on disposals of fixed assets	(8,189)		
Transfer from revaluation reserve	12,517		(12,517)
Surplus for the year		1,368,019	
Balance at 31 March 2004	353,360	1,323,630	0

12 Financial commitments

The HFEA is committed to make the following operating lease payments during next financial year

	2003-2004 £	2002-2003 £
Land and buildings		
Leases which expire within one year	<u>15,439</u>	<u>26,000</u>
Leases which expire within two to five years	<u>1,611</u>	<u>238,590</u>
Leases which expire after five years	<u>285,738</u>	<u>0</u>
Other leases		
Leases which expire within one year	<u>0</u>	<u>2,617</u>
Leases which expire within two to five years	<u>7,264</u>	<u>7,264</u>

13 Capital commitments

At the balance sheet date the HFEA had no capital commitments (2002-2003 nil).

14 Contingent liabilities

At the balance sheet date there were no contingent liabilities.

15 Related party transactions

The Department of Health is regarded as a related party. During the year the HFEA has had various material transactions with the Department and with some NHS Trusts for which the Department of Health is regarded as the parent Department.

- a The following members of the HFEA board have senior management responsibilities at either NHS Trusts or private clinics that are regulated by the HFEA.

Professor David Barlow, Head of Oxford Fertility Unit and HFEA Person Responsible. Fees invoiced during the year by HFEA to the Oxford Fertility Unit amounted to £91,770 during the year. The amount outstanding at 31 March 2004 was £6,650.

Professor Christopher Barratt, Scientific Director, Birmingham Women's Hospital. Fees invoiced by HFEA to the Birmingham Women's Hospital amounted to £55,520 during the year. The amount outstanding at 31 March 2004 was £8,650.

Professor Peter Braude, Guy's, Kings and St Thomas' School of Medicine, Head of the Department of Women's Health, Director of the Centre for Pre-Implantation Genetic Diagnosis Guy's & St Thomas's Trust, Honorary Consultant in Gynaecology Guy's & St Thomas's Trust. Fees invoiced by HFEA to the Guy's and St Thomas's Hospital NHS Trust amounted to £90,340. The amount outstanding at 31 March 2004 was £5,360.

Professor Neva Haites, Professor in Medical Genetics, University of Aberdeen. Fees invoiced by HFEA to the University of Aberdeen during the year amounted to £56,930. The amount outstanding at 31 March 2004 was £7,750.

Dr Maybeth Jamieson, Consultant Embryologist at the Assisted Conception Service, Glasgow Royal Infirmary. Fees invoiced by the HFEA to Glasgow Royal Infirmary during the year amounted to £46,640. No fees were outstanding at 31 March 2004.

As at 31 March 2004 it was anticipated that there was some accrued income due from the above mentioned clinics, however this cannot be quantified precisely as at the date of signing these accounts.

- b Clare Brown, Chief Executive of Infertility Network UK (formerly CHILD). A payment of £2,000 was made to CHILD by HFEA during the year for miscellaneous services.
- c In the Annual Report all Members' interests are disclosed and Members are expected to declare any conflict of interest in discussions held by the Authority. A system to record conflict of interests involving staff of the HFEA was implemented in September 2003.

16 Performance against key financial targets

During 2003-2004 HFEA managed income and expenditure so that draw downs were kept to within the Department's cash allocation. A total of £4,211,000 was drawn down from the Department during 2003-2004, out of a total available cash allocation of £4,251,000.

17 Cash at bank and in hand

	2003-2004	2002-2003
	£	£
Cash at bank and in hand	307,947	25,329
OPG Account	0	3,862
	<u>307,947</u>	<u>29,191</u>

18 Notes to the Cash Flow Statement

	2003-2004	2002-2003 Restated
	£	£
<i>a Reconciliation of operating surplus to net cash (outflow)/inflow from operating activities</i>		
Operating surplus	1,368,019	390,062
Loss/(profit) on disposals of fixed assets	8,189	(353)
Depreciation charges	112,535	77,472
Downward indexation charge	0	0
(Increase) in debtors	(40,286)	(802,654)
Increase/(decrease) in creditors	171,038	(143,834)
Transfer from government grant (capital spend)	(120,724)	(79,390)
(Decrease)/increase in provision for pension transfer costs:	(1,220,015)	552,502
Net cash inflow/(outflow) from operating activities	<u>278,756</u>	<u>(6195)</u>

b Analysis of changes in cash

	At 31 March 2003	Cash flows	At 31 March 2004
	£	£	£
Cash at bank and in hand	<u>29,191</u>	<u>278,756</u>	<u>307,947</u>

19 Financial instruments

FRS 13, Derivatives and Other Financial Instruments, requires disclosure of the role financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities.

As permitted by FRS 13, debtors and creditors which mature or become payable within 12 months from the balance sheet date have been omitted from this note.

Liquidity risk

The principal source of revenues (47% of total gross income) is derived directly from the number of IVF and DI treatment cycles performed by the licensed clinics and reported to the HFEA. The remaining source of revenue is derived from Government grants made on a cash basis.

There are procedures in place to identify late and non-reporting of treatment cycles by clinics and also procedures for chasing up debts. HFEA is therefore not exposed to significant liquidity risks.

Investments and interest rate risk

The HFEA follows an investment policy of placing any surplus funds on deposit in an interest bearing bank account. Interest income was less than £5,000 of the revenues of the HFEA, and the HFEA is not therefore exposed to significant interest rate risk.

Financial assets

	Total	Non-interest bearing cash deposits	Floating-rate cash deposits
	£	£	£
At 31 March 2004	307,720	0	307,720
At 31 March 2003	28,791	0	28,791

Petty cash held on site amounted to £227 (2002-2003: £400).

The fair value of the financial assets was equal to the book value.

Financial liabilities

The HFEA had no financial liabilities at 31 March 2004 requiring disclosure under FRS 13.

Foreign currency risk

There were minimal foreign currency transactions conducted by the HFEA during the year ended 31 March 2004. There was therefore no significant foreign currency risk during the year.

20 Special payments

As disclosed in note 3 to these accounts, a compensation payment of £130,000 was made to Dr Maureen Dalziel, a former Chief Executive of HFEA, on the early termination of her office.

Accounts Determination

The Secretary of State, with the approval of the Treasury, in pursuance of Section 6 of the Human Fertilisation and Embryology Act 1990, hereby gives the following determination.

Directions given by the Secretary of State

- 1 In this determination the Authority means the Human Fertilisation and Embryology Authority.

Form of Accounts

- 2 The Authority shall prepare accounts for the financial year ended 31 March 1997 and subsequent financial years comprising
 - a a Foreword;
 - b an Income and Expenditure account;
 - c a Balance Sheet;
 - d a Cash Flow Statement; and
 - e a Statement of Total Recognised Gains and Losses;
 including such notes as may be necessary for the purposes referred to in the following paragraphs.
- 3 The Accounts shall give a true and fair view of the income and expenditure and cash flows for the financial year, and the state of affairs as at the end of the financial year.
- 4 Subject to this requirement, the Accounts shall be prepared in accordance with
 - a Generally accepted accounting practice in the United Kingdom (UK GAAP);
 - b The disclosure and accounting requirements contained in The Fees and Charges Guide (in particular those relating to the need for appropriate segmental information for services or forms of service provided) and in other guidance which the Treasury or the Secretary of State may issue from time to time in respect of Accounts which are required to give a true and fair view;
 - c The accounting and disclosure requirements given in Government Accounting and in Executive NDPBs: Annual Reports and Accounts Guidance ; as amended or augmented from time to time: insofar as these are appropriate to the Authority and are in force for the financial year for which the Statement of Accounts is to be prepared.
- 5 Clarification of the application of the accounting and disclosure requirements of the Companies Act and accounting standards is given in Schedule 1 attached. Additional disclosure requirements are set out in Schedule 2 attached.
- 6 The Income and Expenditure Account and Balance Sheet shall be prepared under the historical cost convention modified by the inclusion of
 - a fixed assets at their value to the business by reference to current costs; and
 - b stocks valued at the lower of net current replacement cost (or historical cost if this is not materially different) and net realisable value.
- 7 This Accounts Determination supersedes that dated 26 April 1996 and shall be reproduced as an appendix to the accounts.

Signed by the authority of the Secretary of State for Health

P Kendall
Branch Head (RMF-EAC Division)
Department of Health

6 May 1997

Schedule 1

Application of the Accounting and Disclosure Requirements of the Companies Act and Accounting Standards.

Companies Act

- 1 The disclosure exemptions permitted by the Companies Act shall not apply to the Authority unless specifically authorised by the Secretary of State with the approval of the Treasury.
- 2 The Companies Act requires certain information to be disclosed in the Directors' Report. To the extent that it is appropriate, the information relating to the Authority shall be contained in the Foreword.
- 3 When preparing its Income and Expenditure Account, the Authority shall have regard to the profit and loss format 2 prescribed in Schedule 4 to the Companies Act 1985 (as amended).
- 4 When preparing its Balance Sheet, the Authority shall have regard to the Balance Sheet format 1 prescribed in Schedule 4 to the Companies Act 1985 (as amended). The Balance Sheet totals shall be struck at 'Total Assets less Current Liabilities'.
- 5 The Authority is not required to provide the additional information required by paragraph 33(3) of Schedule 4 to the Companies Act 1985.
- 6 The Foreword and Balance Sheet shall be signed by the Chief Executive to the Authority and dated.

Accounting Standards

- 7 The Authority is not required to include a note showing historical cost profits and losses as described in FRS3.
- 8 The Authority shall not adopt the Financial Reporting Standard for Smaller Entities unless specifically approved by the Treasury.

Schedule 2

Additional Disclosure Requirements

- 1 The Foreword shall, inter alia:
 - a State that the Accounts have been prepared in a form determined by the Secretary of State with the approval of the Treasury in accordance with Section 6 of the Human Fertilisation and Embryology Act 1990;
 - b Include a brief history of the Authority and its statutory background.
- 2 The notes to the accounts shall, inter alia:
 - a Include details for the accounting policies adopted;
 - b Provide further explanations of figures in the accounts where it is considered appropriate for a proper understanding of the accounts;
 - c Include details of the key corporate financial targets set by Ministers together with the performance achieved.

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