

FINANCE AND ADMINISTRATIVE SERVICES

PRESCRIPTION PRICING AUTHORITY : 8 JULY 2004 **ITEM No. 10**

AUDIT COMMITTEE ANNUAL REPORT 2003/2004

In the financial year 2003/04, the Prescription Pricing Authority Audit Committee consisted of the following members:

Dr Mohammed Ali (Member of the Audit Committee)
Mr Martin Bennett (Chairman of the Audit Committee)
Mr Kieron Murphy (Member of the Audit Committee from September 2003)
Dr Jim Stockwell (Member of the Audit Committee)

In addition, there was regular attendance from the following:

Mr John Smith, Director of Finance and Administrative Services (PPA)
Mr Clive Johnson, Deputy Director of Finance (PPA)
Mr Jon Connolly, Audit Commission (until January 2004)
Mr Steve Nicklin, Audit Commission (from January 2004)
Mr David Moorhouse (KPMG)

As a result of National Audit involvement, Mr Steven Corbishley attended one meeting and Mr Kevin Suttie attended two meetings.

The Audit Committee met five times during the year and at these meetings internal controls and financial issues were discussed. This report is based on matters discussed at these meetings. Internal and External Audit regularly presented progress reports on the work that they had undertaken throughout the year.

The following matters of interest were discussed during the year.

CHANGES TO EXTERNAL AUDIT ARRANGEMENTS

Changes to External Audit arrangements for the PPA were implemented with effect from April 2003 with Audit Commission now contracted to undertake audit work on behalf of the National Audit Office (NAO). It is expected that this arrangement may continue for a further two years until the NAO resource the work themselves. Unlike many other organisations, the PPA, as a Special Health Authority, does not have the power to appoint external auditors itself.

CHANGES TO ANNUAL ACCOUNTS ARRANGEMENTS

Notification of changes to annual accounts arrangements was received during the year. The PPA, as a Special Health Authority, are required to lay their 2003/2004 accounts before Parliament, as opposed to their inclusion in the overall summarised NHS accounts as before. This change has resulted in a tighter deadline for the production and audit of the final accounts.

CORPORATE CONTROLS ASSURANCE AND RISK MANAGEMENT

The Audit Committee continued to receive regular progress reports.

The Committee agreed to publish the risk register on the PPA intranet and also approved a revised Risk Management Policy; a Scheme of Delegation and updated Standing Financial Instructions and Standing Orders.

Guidance on various aspects of controls assurance was made available by the Department of Health (DH). These papers were discussed at the Committee and approval was given to management action. This guidance centred around assurance frameworks on the Statement of Internal Control for 2003/04. The Committee also approved the submission to the Controls Assurance Support Unit (CASU) on the controls assurance performance for 2002/03.

ANNUAL ACCOUNTS

Members reviewed the Annual Financial Statements of the Authority for 2002/03 prior to adoption by the Authority. An additional meeting was held in July 2003 to give the Audit Committee members the opportunity to make comments and question officers and auditors prior to the accounts being submitted to the DH.

QUALIFICATION OF PHARMACEUTICAL ACCOUNTS

There is a long standing issue of the qualification of the Pharmaceutical Services Accounts, relating to the estimated level of fraudulent transactions relating to prescription charges as reported by the Director of Counter Fraud Services. The Committee repeated its long held desire for a resolution to the matter.

The 2002/2003 accounts were qualified for the fourth successive year. Two reports were prepared by the Director of Finance in conjunction with the auditors on the background to this issue and the potential solutions that may be available in 2003/04. Progress has been made with the DH to classify the Pharmaceutical Accounts as memorandum accounts and as such they would not require an audit opinion. This issue is still under discussion but a positive outcome is expected.

INTERNAL AUDIT

KPMG undertook all Internal Audit work during 2003/04 under the terms of the five year contract which was in the third year of operation. The Committee received an Annual Report on the internal audit activity during 2002/03, and an annual report on Counter Fraud work. Copies of reports containing priority one recommendations were reviewed in full. Additionally, a regular progress report that summarised the current position of the planned reports was produced for each meeting.

A plan for 2004/05 was presented to the Committee towards the end of the financial year and was discussed and agreed.

EXTERNAL AUDIT

The Authority continued to receive external audit services from Audit Commission.

In addition to the regular progress reports the external auditors produced two further reports for the Committee entitled Policy into Practice and People Management Issues. The former of these was a follow-up from a previous audit, while the latter was concerned with the performance of the HR Directorate. The Committee also received reports on the financial aspects of corporate governance, progress on the Freedom of Information Act 2000, and a review of forward planning systems.

The Authority referred the Annual Audit Letter to the Committee for review.

Following the change in external audit arrangements reported previously the NAO produced an audit plan for the audit of the 2003/04 final accounts.

CONCLUSION

In my capacity as Audit Committee Chair, I am pleased to report that, on the basis of the reports received during the year and other discussions with officers and auditors, the Authority is financially stable and maintains an effective system of internal control and risk management.

Martin Bennett

Chair

PPA Audit Committee