

AUDIT COMMITTEE

PRESCRIPTION PRICING AUTHORITY :
9 OCTOBER 2003

ITEM No.10

CONFIRMED MINUTES OF THE AUDIT COMMITTEE

TO NOTE

Confirmed minutes of the Audit Committee held on

10 July 2003

PRESCRIPTION PRICING AUTHORITY

AUDIT COMMITTEE

Minutes of Meeting held on Thursday 10 July 2003

Present: Mr Martin Bennett (Chairman)
Dr Jim Stockwell (Authority Member)
Dr Mohammed Ali (Authority Member)

In Attendance: Mr John Smith (Director of Finance)
Mr Clive Johnson (Deputy Director of Finance)
Ms Lynn Snowball (Audit Commission)
Mr Jon Connolly (Audit Commission)
Mr David Moorhouse (KPMG)

Also Present: Mrs Lesley Simpson (Minutes)

24/03 APOLOGIES FOR ABSENCE

There were no apologies for absence.

25/03 MINUTES OF PREVIOUS MEETING – 12 June 2003

The minutes of the meeting held on 12 June 2003 were accepted as a true record.

26/03 MATTERS ARISING

Mr Bennett asked whether any progress had been made on the qualification issue. Mr Connolly confirmed that discussions had taken place and the issue would be raised later in the agenda.

27/03 CORPORATE GOVERNANCE FRAMEWORK

Mr Smith explained that the framework was established by the Department of Health to encompass the Standing Orders (SOs), Standing Financial Instructions (SFIs) and Scheme of Delegation. It is the Audit Committee's duty to review this document prior to it being tabled at the Authority meeting. Mr Smith summarised the accompanying report outlining the main changes to the SOs, SFIs and Scheme of Delegation. The review of the SOs and SFIs included recommendations received following a recent review by Internal Audit.

Mr Smith highlighted an error in the covering report to the Corporate Governance Framework. Following discussion at Management Board an agreement was reached that the Chief Executive was responsible for the production of the annual business plan rather than the Director of Planning and Corporate Affairs. All references in the actual Corporate Governance Framework were amended but Appendix B Section 2 of the covering report was not amended.

SOs – The main areas of change are:

The schedule of matters reserved for the Authority has been removed and is now covered in the Scheme of Delegation. The revised Audit Committee Terms of Reference have been added, a duplication within the Remuneration Committee section has been removed and a new clause with regard to purchasing has been added.

SFIs – Main changes are:

The importance of working within the SFIs has been emphasised and the process for reporting irregularities has been simplified, with all initial reports being made to the Director of Finance and Administrative Services. Some changes to the banking arrangements have been made in an attempt to streamline processes. Changes in the way tenders and procurements are dealt with are to be implemented to reduce reports and paperwork tabled at the Authority meetings. Greater responsibility will be given to the Management Board to approve expenditure. Mr Bennett asked whether non competitive tenders over £100,000 would still be recorded in the register. Mr Smith confirmed that this would still happen and reference to this would be added to the SFIs during the next review.

Action: Mr Smith

Mr Bennett also asked whether the Authority would be given an update on expenditure agreed by the Management Board. Mr Smith replied that this would be included within the regular Finance report in future.

Action: Mr Smith

Scheme of Delegation – This is a new document based on a model provided by the Department of Health detailing responsibilities of the Authority, the Management Board and individual directors. The intention is to expand on this document to include constitutional directions, and more detailed statements of delegation to individual directors, at a later stage.

The Corporate Governance Framework is to be available on the internal Intranet but staff will still be required to sign a form to indicate that they have read the document.

Dr Stockwell asked whether the BACS transfer arrangements should be reflected in the SFIs. Mr Johnson replied that in the past the BACS arrangements were not in the SFIs as the finance ledger has its own built-in control system but reference to the arrangements will be added at the next SFI review.

Action: Mr Johnson

Dr Stockwell raised an issue with regard to the Authority's responsibility to adopt/approve the accounts. The SFI's indicate that the Authority are expected to adopt the accounts but the Statement of Internal Control relies on the members actually approving the accounts, thus raising an inconsistency. Ms Snowball drew attention to the Audit Commission report which provides the members with the

information to make an informed decision. Ms Snowball also commented that the method adopted by the Authority and Audit Committee for the accounts this year offered a more robust approach.

The Audit Committee agreed to recommend acceptance by the Authority of the Corporate Governance Framework.

28/03 ANNUAL ACCOUNTS 2002/2003

Mr Johnson explained that two sets of accounts had been prepared in line with the Department of Health's standard template, the Main Administration Accounts and the Pharmaceutical Accounts.

Pharmaceutical Accounts – The level of patient charge evasion has not been assessed by the NHSCFSMS since March 1999 but is not considered to be at a de minimus level. It is therefore expected that this will result in a qualified opinion as in previous years. From April 2002 the PPA was responsible for charging hospital trusts directly resulting in over £13 million expenditure and £3 million income being recharged direct to hospital trusts. Another change from previous years was the inclusion of PPC sales which resulted in additional income of £32 million to the end of March 2003. No prior year figures are available for comparison purposes as this was previously accounted for by Health Authorities.

Main Administration Accounts – Mr Johnson explained changes in the Main Administration Accounts in respect of CFS. As from 1 January 2003 the Compliance Unit transferred to CFSMS. As a result of this transfer the patient charge income and expenditure accruing after that date will be accounted for by CFSMS, although the PFT budget was retained by the PPA until 31 March 2003. For the first time the PPA was able to use brokerage arrangements. £3.5 million was carried forward to the current financial year for projects that had been delayed from 2002/03. A prior period adjustment was made to account for an overstated debtor in relation to patient prescription and penalty charges as well as changes in the treatment of fixed assets and pension payments.

Mr Johnson issued the proposed Statements of Internal Control and Statements of Responsibilities to be signed by the Chief Executive.

Dr Stockwell asked whether the prior period adjustment in the Pharmaceutical Accounts was linked to penalty charges. Mr Johnson confirmed that it related to the prescription charge element of the payment. Mr Johnson explained that recovered prescription charges and penalty charges were accounted for separately, with the prescription charge appearing in the Pharmaceutical Accounts and the penalty charge in the Main Administration Accounts. The PPA had been acting on an instruction received from the Director of Counter Fraud Services in that the debt could not be written off.

Dr Stockwell asked for an explanation of two smaller prior period adjustments in the main administration accounts. Mr Johnson informed the committee that these adjustments were made following instructions from the Department of Health.

Dr Stockwell will email minor presentational points to Mr Johnson.

Mr Bennett raised some issues regarding the two forewords to the accounts. Page 1.2 final paragraph, penultimate sentence needs to have either the word 'with' or 'by' removed. Mr Johnson to check the explanation relating to fees on page 1.2 and reword to read the basic dispensing fee returned to the previous level. Mr Bennett asked that the abolition of the period of treatment fee, from December 2002, be referred to in the wording.

Action: Mr Johnson

Mr Connolly summarised the Audit Commission report "Communication Concerning Financial Statements to those Charged with Governance". This report is produced for the first time as a result of changes to the Statement of Auditing Standards. It requires that auditors communicate to those charged with governance any issues raised during the audit before the opinion is given on the financial statements. It was agreed for the purpose of this report that those charged with governance for the PPA would be the Audit Committee. The audit of the accounts is almost complete and the draft opinions have been included in the report as appendices. The main administration accounts will receive an unqualified opinion and the pharmaceutical accounts will have a qualified opinion as in recent years.

The audit on the accounts has identified two weaknesses:

- No separate ledger is operated on behalf of other agencies. Mr Johnson confirmed that this was being addressed and a separate ledger would be in place within this financial year.
- Errors (adjusted after audit) were found in the accounts which highlighted the need for improved close-down procedures.

Mr Connolly confirmed that the audit was complete in the main and no other major issues needed to be brought to the attention of those charged with governance.

Ms Snowball reported that, following the transfer of the Compliance Unit to NHSCFSMS, the audit for the accounts next year would look at the PPA's responsibilities as directed by the Department of Health with regard to collecting prescription charges. In doing this the qualification of the pharmaceutical accounts may no longer be necessary. Work is to commence in this area before the issue arises at the end of the financial year. Mr Bennett suggested a letter of comfort from the Department of Health, outlining the PPA's responsibilities, may benefit this process.

Mr Bennett raised a concern that the wording of the qualified opinion on the pharmaceutical accounts was misleading. The paragraph gives the impression that the estimated total of patient fraud is the current figure. Mr Bennett suggested it be reworded to read the level of fraud was previously estimated.

Action: Mr Connolly

29/03 INTERNAL AUDIT PROGRESS REPORT

Mr Moorhouse updated the committee on the current position with regard to last year's audit plan. Responses have now been received for draft reports issued and all reports will be finalised by the deadline date of 31 July 2003. Work on the current audit plan is scheduled to commence in August.

30/03 ANY OTHER BUSINESS

There was no other business discussed.

31/03 DATE AND TIME OF NEXT MEETING

The next meeting of the Audit Committee will take place on Thursday 11 September 2003 at 9.30am. The meeting will be held in the Mezzanine Floor Meeting Room, Bridge House.

SIGNED:.....

MARTIN BENNETT
CHAIRMAN

DATED:.....