

**AUDIT COMMITTEE**

PRESCRIPTION PRICING AUTHORITY : 15 APRIL 2004      **ITEM No. 11**

**CONFIRMED MINUTES OF THE AUDIT COMMITTEE**

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**TO NOTE**

Confirmed minutes of the Audit Committee held on

15 January 2004

# **PRESCRIPTION PRICING AUTHORITY**

## **AUDIT COMMITTEE**

### **Minutes of Meeting held on Thursday 15 January 2004**

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

**In Attendance:** Mr John Smith (Director of Finance)  
Mr Clive Johnson (Deputy Director of Finance)  
Mr Jon Connolly (Audit Commission)  
Mr Steve Nicklin (Audit Commission)  
Mr Steve Corbishley (National Audit Office)  
Mr Kevin Suttie (National Audit Office)  
Mr David Moorhouse (KPMG)

**Also Present:** Miss Carol Hailes (Minutes)

#### **01/04 APOLOGIES FOR ABSENCE**

Apologies were received from Ms Lynn Snowball (Audit Commission).

#### **02/04 MINUTES OF PREVIOUS MEETING – 11 SEPTEMBER 2003**

The minutes of the meeting held on 11 September 2003 were agreed as a correct record.

#### **03/04 MATTERS ARISING**

##### **35/03 : Final Accounts 2002-2003**

Mr Bennett highlighted that the Audit Committee continued to be concerned regarding the qualification on the PPA's Pharmaceutical Account. Mr Smith explained that discussions were to be held with the Audit Commission in February 2004 to discuss a number of issues around the qualification in order to attempt to resolve the matter and remove the qualification. It was agreed that Mr Smith would report on those discussions at the next Audit Committee in March 2004.

**Action: Mr Smith**

#### **04/04 AUDIT COMMISSION ANNUAL AUDIT LETTER**

Mr Connolly presented the Annual Audit Letter and explained that Mr Nicklin would be responsible for the PPA's audit work for 2003/04 on behalf of the National Audit Officer (NAO). The Letter summarised the work carried out during the 2002/03 audit year and addressed the key areas for the Authority. He reported that one of the biggest challenges for the PPA is the growth in prescription volume and the Capacity Improvement Programme. Good progress had been made over the year which has led to a positive statement in the Letter.

The Authority had made significant progress in implementing the recommendations made in previous years on effective performance management and forward planning systems. Systems were in place to strengthen processes and systematic processes have been implemented to model change. These formal arrangements appear to be robust.

Work would be carried out this year to follow up the recommendations made in respect of People Management Issues.

Mr Connolly advised that the annual accounts close down arrangements need to be strengthened and that the NAO quality assurance work should be built into the accounts timetable. He further advised that the governance arrangements associated with managed services should continue to be developed. It is planned that these areas are reviewed as part of 2003/04 audit. Mr Smith stated that these areas are currently being reviewed and that work had already commenced, including a restructure of the Finance department and the creation of a new qualified accountant post to manage the financial accounting stream of work.

Mr Johnson commented that the problems with the ledgers had been resolved, with separate ledgers created for the managed service agencies de-coupled from the PPA ledger. Mr Smith provided an assurance that the accountancy work being undertaken for managed service bodies was only up to trial balance stage and that discussions were due to take place with the Agencies to ensure that they had sufficient information for them to produce their own accounts.

The positive Annual Audit Letter was welcomed by the Committee.

#### **05/04 AUDIT COMMISSION - REVIEW OF FORWARD PLANNING SYSTEMS**

Mr Connolly presented the review of the Forward Planning Systems of which the key issues had been discussed within the context of the Annual Audit Letter.

Mr Bennett on behalf of the Audit Committee thanked Mr Connolly for the work he had undertaken during the year and wished him success with his new responsibilities.

## **06/04 INTERNAL AUDIT PROGRESS REPORT**

Mr Moorhouse advised that satisfactory progress had been made in accordance with the audit plan. The 2002/03 final report, relating to external IT communications, has now been completed. Progress in respect of the 2003/2004 audit included 11 reports that had been finalised, 4 drafts issued and 6 audits ongoing. He further advised that 309 days out of 530 planned dates had been utilised and that some reallocation of dates had been agreed with the Director of Finance. Work was ongoing in relation to the Capacity Improvement Programme, risk management and controls assurance and a programme of fraud awareness workshops had commenced.

Mr Bennett enquired whether there were reasons for delays in responding to audit reports in line with the agreed protocol. Mr Smith commented that there had been an improvement in the responses and that where there were delays they were normally for justifiable reasons such as the need to discuss the issues more widely. Mr Moorhouse agreed with Mr Smith's assessment. Following discussion the Committee agreed that future reports should include an explanation of the reason for delays beyond the agreed dates contained within the Protocol.

**Action: Mr Moorhouse**

Mr Murphy commented that there had been a reduction of planned audit days for 03/26 ETP pilots from 20 to zero and enquired whether there should still be the requirement to audit the pilots as this involved public expenditure. Mr Smith advised that the decision for the termination of the ETP pilots was external to the PPA. ETP had subsequently been rolled into the Capacity Improvement Programme (CIP) with its associated investment to ensure that PPA has ETP compatibility. Thus the revised plan covers ETP within the CIP planned audit days. A closure report on the ETP pilots had been reviewed and agreed by the Authority at their meeting in November 2003.

## **07/04 CONTROLS ASSURANCE**

Mr Smith presented the Controls Assurance update. He explained that revised NHS guidance had been issued on the content of the Statement of Internal Control and that the Controls Assurance Standard had also been revised with the number of standards increased to 21. However, only 16 of the 21 standards apply to the PPA, with the others relating to the hospital environment eg clinical waste management. He further explained that the Statement of Internal Control should be agreed by 15 May 2004 which will require the Audit Committee to hold a meeting immediately before that date.

Dr Stockwell was encouraged by the report and commented that risk management appeared to be well embedded within the organisation. Mr Murphy commented favourably on the approach being taken by the PPA with regard to risk management and enquired whether the increased workload in this area had impacted on the organisation. Mr Smith commented that he was aware of the pressure that risk management work generated and was seeking to ensure that the activities were spread throughout the PPA as widely as possible. To that aim each directorate manages its own risk register. However there had been more demand this year due to the requirement to provide more documentary evidence of controls.

Mr Smith expressed concern that the change of external audit arrangements might move the PPA away from the NHS standard to the central government model. Mr Corbishley responded that Controls Assurance is a Treasury led initiative and the issue will also be a consideration for other Special Health Authorities who have had changes to the external audit arrangements. The NAO take the approach that risk management is a people led system and should be embedded within the culture of the organisation. There was a concern within Parliament that no NHS body had yet been able to sign a full Statement of Internal Control, although there is an expectation of full implementation by 31 March 2004. Mr Corbishley was content with the PPA continuing to follow the NHS standard on the basis that it has a fully operational risk register that was being properly managed.

#### **08/04 LOSSES AND SPECIAL PAYMENTS**

Mr Smith advised that an overpayment in salaries had been as a result of an employee who had left during the year who had taken more than their annual leave entitlement and had left following maternity leave. He further advised that the theft of equipment at Cuthbert House had been reported to the Police but due to insufficient evidence the suspected individual, a contract cleaner, had not been prosecuted. The individual is no longer employed by the contractor and is not allowed on PPA premises. Staff have been made aware of the requirement to ensure that property is kept secure overnight.

Mr Smith advised that a compensation payment had been made in respect of a difficult disciplinary case that had progressed to Employment Tribunal. Although our legal advice was that the PPA had a strong position to defend, in view of the amount of senior management time and administrative resource involved, a business decision was made to settle out of court.

#### **09/04 ANY OTHER BUSINESS**

Mr Bennett commented that due to the difficulties experienced in arranging a meeting in December he wondered whether consideration should be given to appointing all non-executives as members of the Audit Committee. In addition he thought it would be helpful if all non-executives received copies of the Audit Committee papers at the time of issue. Mr Smith responded that conflicts may arise with non-executives availability due to attendance at other sub-committees. However copies of papers could be provided for information purposes. Mr Bennett advised that he would discuss the suggestions with the Chairman.

**Action: Mr Bennett**

Mr Murphy proposed that meetings throughout the year were timetabled in diaries to ensure availability of Members. Mr Bennett accepted this proposal and asked that a schedule of future business was produced that indicated the dates of meetings and the items that need to be discussed.

**Action: Mr Smith**

**10/04 DATE AND TIME OF NEXT MEETING**

The next meeting of the Audit Committee would take place on Thursday 11 March 2004 in the 4<sup>th</sup> floor meeting room, Cuthbert House.

Mr Bennett highlighted the items to be discussed at that meeting as:

- Internal Audit - Audit Plan
- External Audit - Audit Strategy
- Qualification Issue

SIGNED:.....

MARTIN BENNETT  
CHAIRMAN

DATED:.....