

# Portsmouth Hospitals NHS Trust

Annual Audit Letter for the year ended 31 March 2016

June 2016

Ernst & Young LLP

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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued ‘Statement of responsibilities of auditors and audited bodies 2015-16’. It is available from the Chief Executive of each audited body and via the PSAA website ([www.psa.co.uk](http://www.psa.co.uk))

The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The ‘Terms of Appointment from 1 April 2015’ issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Annual Audit Letter is prepared in the context of the Statement of responsibilities. It is addressed to the Directors/Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure - If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

A hand with white nail polish is writing on a document with a blue pen. In the background, there is a calculator, a laptop, and a white mug. A yellow rectangular box is overlaid on the left side of the image.

## Executive Summary

## Executive Summary

We are required to issue an annual audit letter to Portsmouth Hospitals NHS Trust (the Trust) following completion of our audit procedures for the year ended 31 March 2016.

Below are the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
Opinion on the Trust's: ▶ Financial statements	Unqualified – the financial statements give a true and fair view of the financial position of the Trust as at 31 March 2016 and of its expenditure and income for the year then ended.
▶ Parts of the remuneration and staff report to be audited	We had no matters to report.
▶ Consistency of the Annual Report and other information published with the financial statements	Financial information in the Annual report and published with the financial statements was consistent with the Annual Accounts.

Area of Work	Conclusion
Reports by exception:	
▶ Consistency of Governance Statement	The Governance Statement was consistent with our understanding of the Trust.
▶ Referrals to the Secretary of State	We issued a Section 19a report under the Audit Commission Act in June 2015, reporting our view that the Trust would not be able to achieve its breakeven duty over a rolling three year period. This report, now a Section 30(2) report under the Local Audit and Accountability Act 2014, remains valid for the year ending 31 March 2016.
▶ Public interest report	We had no matters to report in the public interest.
▶ Value for money conclusion	We reported by exception: <ul style="list-style-type: none"> <li>▶ We recognised the Trust has made significant progress in financial planning and forecasting since the appointment of a new Director of Finance in October 2015. However, the Trust's medium and long term financial plans are still in development as part of the response to the underlying causes of the 2015/16 financial outturn, and the development of the local health system Sustainability and Transformation Plan.</li> </ul>

Area of Work	Conclusion
Reporting to the Trust on its consolidation schedules	We concluded that the Trust's consolidation schedules agreed, within a £250,000 tolerance, to the audited financial statements
Reporting to the National Audit Office (NAO) in line with group instructions	We had no matters to report.

As a result of the above we have also:

Area of Work	Conclusion
Issued a report to those charged with governance of the Trust communicating significant findings resulting from our audit.	Our audit results report was issued on 23 May 2016.
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice.	Our certificate was issued on 31 May 2016.

We would like to take this opportunity to thank the NHS Trust staff for their assistance during the course of our work.



Helen Thompson  
Executive Director  
For and on behalf of Ernst & Young LLP



Purpose

## Purpose

### The Purpose of this Letter

The purpose of this annual audit letter is to communicate to Directors and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the Trust.

We have already reported the detailed findings from our audit work in our 2015/16 annual results report to the 23 May 2016 Audit Committee, representing those charged with governance. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Trust.



A person wearing teal scrubs is holding a yellow folder. A yellow rectangular box is overlaid on the folder, containing the text "Responsibilities".

Responsibilities

## Responsibilities

### Responsibilities of the Appointed Auditor

Our 2015/16 audit work has been undertaken in accordance with the Audit Plan that we issued in March 2016 and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

Expressing an opinion:

- ▶ on the 2015/16 financial statements;
- ▶ on the parts of the remuneration and staff report to be audited;
- ▶ on the consistency of other information published with the financial statements, including the annual report; and
- ▶ on whether the consolidation schedules are consistent with the Trust's financial statements for the relevant reporting period.

Reporting by exception:

- ▶ if the annual governance statement does not comply with relevant guidance or is not consistent with our understanding of the Trust;
- ▶ to the Secretary of State for Health if we have concerns about the legality of transactions or decisions taken by the Trust;
- ▶ any significant matters that are in the public interest;
- ▶ forming a conclusion on the arrangements the Trust has in place to secure economy, efficiency and effectiveness in its use of resources; and,
- ▶ reporting on an exception basis any significant issues or outstanding matters arising from our work which are relevant to the NAO as group auditor.

### Responsibilities of the Trust

The Trust is responsible for preparing and publishing its statement of accounts, annual report and annual governance statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

A hand holding a pen writing on a document, with a calculator and a laptop in the background. The scene is set on a desk with a white mug on the left. A yellow rectangular box is overlaid on the left side of the image, containing the text 'Financial Statement Audit'.

## Financial Statement Audit

## Financial Statement Audit

### Key Issues

The Annual Report and Accounts is an important tool for the Trust to show how it has used public money and how it can demonstrate its financial management and financial health.

We audited the Trust's Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office and issued an unqualified audit report on 31 May 2016.

Our detailed findings were reported to the 23 May 2016 Audit Committee.

The key issues identified as part of our audit were as follows:

Significant Risk	Conclusion
Management override of controls	We did not identify any material weaknesses in controls or evidence of material management override. We did not identify any instances of inappropriate judgements being applied.
Revenue and expenditure recognition	Our testing did not reveal any material misstatements with respect to revenue and expenditure recognition.
PFI Accounting Models	Our testing of the accounting models confirmed they produce materially correct information in the Trust's accounts.

Value for Money



## Value for Money

We are required to consider whether the Trust has put in place proper arrangements to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- take informed decisions;
- deploy resources in a sustainable manner; and
- work with partners and other third parties.



## Key Findings

### Financial Position and Section 30(2) Referral to Secretary of State under Local Audit & Accountability Act 2014

The financial statements confirmed the Trust's outturn position for the 2015-16 period was £23.48 million deficit, producing a cumulative breakeven position at 31 March 2016 of £26.4 million deficit. In June 2015, we issued a Section 19a report under the Audit Commission Act (now section 30(2) under the Local Audit & Accountability Act 2014), reporting our view that the Trust would not be able to achieve its breakeven duty over a rolling three year period. Given the Trust's outturn for 2015-16, this referral to the Secretary of State remains valid for the year ending 31 March 2016.

### Cost Improvement Plans (CIPs)

In 2015-16, the Trust delivered £15.324 million of CIP savings, representing 51% of the forecast £29.926 million target. The Operational Plan for 2016-17 requires the Trust to produce a £1.2 million surplus to meet its financial control total. To achieve this, the Trust has the significant challenge of developing and delivering a CIP of £32.2 million, double what was achieved in 2015-16.

The Trust has put in place a number of measures to deliver this challenging target, which will require all staff within the Trust, led from the Board, to support the right culture, values and behaviours to achieve the savings required.

### Care Quality Commission Findings and Pressures on the Emergency Department

The Care Quality Commission has rated the Trust as "Requires Improvement", raising major quality concerns related to the Emergency Department and the Unscheduled Care pathway. The Trust's own key performance indicators clearly show pressures remain within these areas and performance for the year was well below target. We recognise the Trust has produced an "Improving Urgent Care Plan" which aims to reduce those pressures and improve performance, and the Trust has been working with commissioners when producing its Operational Plan to determine the levels of activity and funding for the period. Delivering improvements in urgent care will continue to place significant pressure on the Trust's financial position, and the Trust will need to ensure this is properly managed and reported, alongside the delivery of the CIP savings and delivering a surplus of £1.2 million at 31 March 2017.

### Conclusion

The Trust has made significant progress in financial planning and forecasting since the appointment of a new Director of Finance in October 2015. Action is being taken to address the financial position:

- the internal financial control environment is being strengthened;
- the Director of Finance is leading a Delivery Unit to oversee the development, monitoring and delivery of the Cost Improvement Plan; and
- the accountability framework is being reviewed.

It is imperative that these longer term financial plans are produced and supported at all levels of the Trust.

While we have concluded that action is being taken to address the financial position, the challenge to the Trust is significant and the Trust will breach its statutory requirement to breakeven over a three year period.

We therefore reported by exception on the value for money conclusion.





A close-up photograph of a laboratory microplate. A glass pipette is positioned over one of the wells, dispensing a small amount of clear liquid. The background is a soft, out-of-focus yellow and green light. A semi-transparent yellow rectangular box is overlaid on the left side of the image, containing the text "Other Reporting Issues".

Other Reporting  
Issues

## Other Reporting Issues

### Department of Health Group Instructions

We are only required to report to the NAO on an exception basis if there were significant issues or outstanding matters arising from our work. There were no such issues.

### Annual Governance Statement

We are required to consider the completeness of disclosures in the Trust's annual governance statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it complies with relevant guidance.

We completed this work and did not identify any areas of concern.

### Referral to Secretary of State

We must report to the Secretary of State any matter where we believe a decision has led to, or would lead to, unlawful expenditure, or some action has been, or would be, unlawful and likely to cause a loss or deficiency.

We issued a Section 19a report under the Audit Commission Act in June 2015, reporting our view that the Trust would not be able to achieve its breakeven duty over a rolling three year period. This report, now a Section 30(2) report under the Local Audit and Accountability Act 2014, remains valid for the year ending 31 March 2016.

### Report in the Public Interest

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the Trust or brought to the attention of the public.

We did not identify any issues which required us to issue a report in the public interest.

### Control Themes and Observations

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you significant deficiencies in internal control identified during our audit. None were identified.

A man in blue scrubs and a surgical cap is shown in profile, focused on operating a piece of medical equipment. He is wearing a silver watch on his left wrist. The background shows a hospital room with shelves of supplies and other medical equipment. A yellow rectangular box is overlaid on the left side of the image, containing the text "Focused on your future".

Focused on your  
future

## Focused on your future

Area	Issue	Impact
<p>NHS provider financial pressures</p>	<p>Draft 2015/16 financial statements show NHS providers overspent by a record £2.45 billion for the year. The scale of this overspending is unprecedented. Despite additional funding and significant efforts to reduce deficits, record numbers of trusts overspent and the overall deficit is likely to be three times higher than in 2014/15. Some 48 trusts reported a deficit of more than £20 million, including 11 trusts reporting an individual deficit of more than £50 million.</p> <p>At the same time, performance against key targets is continuing to deteriorate and there are increasing concerns over the quality of services. Providers as a whole missed the Accident and Emergency waiting target of seeing 95 percent of patients within four hours for the final quarter of the year, and waiting lists for routine operations reached 3.34 million.</p> <p>It is not yet clear whether trusts' financial performance for the year will cause the Department of Health to exceed its spending limit for 2015/16, a serious breach of parliamentary protocol. Whether or not there is a breach, NHS trusts will start 2016/17 with a collective deficit of around £1 billion more than planned. Without change there is the potential for the increasing financial pressure to impact further on levels of patient care.</p>	<p>The scale of the financial challenges faced by NHS providers impacts all aspects of their operations. It is therefore a key driver of audit risk and impacts our approach.</p>
<p>Sustainability and Transformation Plans</p>	<p>NHS England's document, Delivering the Forward View: NHS planning guidance 2016/17-2020/21, published in December 2015, asks local health systems, including local government, voluntary and community partners, to work together to secure transformation change in healthcare planning and delivery.</p> <p>For this purpose England has been divided into 44 local health systems, made up of local councils, CCGs and NHS and other providers. Each health system needs to produce, by the end of June 2016, a Sustainability and Transformation Plan covering the next five years.</p>	<p>Bodies will need to work together to a far greater extent than ever before to ensure that sustainability and financial plans are viable, and successfully delivered. Failure to do this could have wider adverse financial and service delivery consequences across the whole local area.</p> <p>As your external auditor we need to gain an understanding of your wider approach and plans, and the impact of greater partnership working on your governance, internal control and financial reporting.</p>

Area	Issue	Impact
	<p>The initial requirement is for CCGs and providers to control expenditure and stay within budget in 2016-17. Subsequently, spending and performance will need to be managed sustainably over the following four years in order to access the available transformation funding. This is intended to fund changes to service delivery while maintaining and improving patient safety and quality over the years 2017-21. Failure to deliver on targets agreed will result in bodies being unable to access transformation funding, which will from now on be the only additional funds available.</p>	

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ED None

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