

A medical stethoscope with a black tube and silver chest piece is resting on a clipboard. The clipboard has a white form with various fields and text, including 'INSURANCE', 'Reason for', 'Reason for', 'WORKING', and 'CHIN 1'. The clipboard is on a light blue surface. In the background, there is a blurred image of a blue container and a white wall with a grid pattern.

Portsmouth Hospitals
University NHS Trust
Auditor's Annual
Report

Year ended 31 March 2023

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The contents of this report are subject to the terms and conditions of our appointment as set out in our engagement letter of 13 April 2021.

This report is made solely to the Audit Committee, Board of Directors and management of Portsmouth Hospitals University NHS Trust in accordance with our engagement letter. Our work has been undertaken so that we might state to the Audit Committee, Board of Directors and management of Portsmouth Hospitals University NHS Trust those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit Committee, Board of Directors and management of Portsmouth Hospitals University NHS Trust for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



Introduction

Purpose

The purpose of the auditor's annual report is to bring together all of the auditor's work over the year. A core element of the report is the commentary on value for money (VFM) arrangements, which aims to draw to the attention of the Trust or the wider public relevant issues, recommendations arising from the audit and follow-up of recommendations issued previously, along with the auditor's view as to whether they have been implemented satisfactorily.

Responsibilities of the appointed auditor

We have undertaken our 2022/23 audit work in accordance with the Audit Plan that we issued in March 2023. We have complied with the National Audit Office's (NAO) 2020 Code of Audit Practice, other guidance issued by the NAO and International Standards on Auditing (UK).

As auditors we are responsible for:

Expressing an opinion on:

- The 2022/23 financial statements;
- The parts of the remuneration and staff report to be audited;
- The consistency of other information published with the financial statements, including the annual report; and
- Whether the consolidation schedules are consistent with the Trust's financial statements for the relevant reporting period.

Reporting by exception:

- If the 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 and Social Care if we have concerns about the legality of transactions or decisions taken by the Trust;
- If we identify a significant weakness in the Trust's arrangements in place to secure economy, efficiency and effectiveness in its use of resources;
- Any significant matters that are in the public interest; and
- 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 financial statements, annual report and governance statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.



Introduction (continued)

2022/23 Conclusions

Financial statements	Unqualified – the financial statements give a true and fair view of the financial position of the Trust as at 31 March 2023 and of its expenditure and income for the year then ended. We issued our auditor's report on 29 June 2023.
Parts of the remuneration report and staff report subject to audit	We had no matters to report.
Consistency of the other information published with the financial statement	Financial information in the annual report and published with the financial statements was consistent with the audited accounts.
Value for money (VFM)	We had no matters to report by exception on the Trust's VFM arrangements. We have included our VFM commentary in Section 03.
Consistency of the annual governance statement	We were satisfied that the annual governance statement was consistent with our understanding of the Trust.
Referrals to the Secretary of State and NHS England	As noted in our Audit Results Report and our Audit Opinion, we referred a matter to the Secretary of State under section 30 of the Local Audit and Accountability Act 2014 due to the in-year and ongoing cumulative deficit of the Trust. Under Paragraph 2 (1) of Schedule 5 of the 2006 Act, an NHS Trust shall ensure that its revenue is not less than sufficient, taking one financial year with another, to meet outgoings properly chargeable to its revenue account.
Public interest report and other auditor powers	We had no reason to use our auditor powers.
Reporting to the Trust on its consolidation schedules	We concluded that the Trust's consolidation schedules agreed, within a £300,000 tolerance, to the audited financial statements.
Reporting to the National Audit Office (NAO) in line with group instructions	We had no matters to report to the NAO.
Certificate	We have issued our certificate alongside delivery of this report – See Appendix B

Audit of the financial statements

Key findings

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.

On 29 June 2023, we issued an unqualified opinion on the financial statements. We reported our initial findings to the 12 June 2023 Audit Committee meeting, and provided an update in our Final Audit Results Report issued on 28 June 2023. We outline below the key issues identified as part of our audit, reported against the significant risks and other areas of audit focus we included in our Audit Plan. We reported one area for improvement in the control environment in the Audit Results Report.

Significant risk

Conclusion

Misstatement due to fraud or error -
Management override of controls

Our audit work did not identify any evidence of material misstatement due to fraud or error, including through management override of controls.

Risk of fraud in non-NHS income and
expenditure recognition

We identified one accrual which was understated by £1.55 million. This error was corrected by management. We also identified a projected difference of £0.52 million arising from our testing of creditors cut-off, leading to overstatement of creditors and expenditure, which management did not adjust in the final financial statements. We were satisfied that this neither of these was as a result of fraud.

No other issues were identified through our testing of accruals or the completeness of income and expenditure/creditors.

Inappropriate capital expenditure
recognition

We identified two classification misstatements, of £4.85 million and £1.63 million respectively, between assets under construction (AUC) and prepayments. For the first of these, the Trust recognised £7 million of AUC in 2022/23, relating to the new concrete service tunnel, however only £2.15 million was actually under construction at the balance sheet date. The full £7 million was recognised as AUC following Department for Health and Social Care (DHSC) guidance, due to the receipt of Public Dividend Capital (PDC) for this asset. In our judgment, £4.85 million of the £7 million should have been accounted for as a prepayment, not AUC, at 31 March 2023. This issue was also identified in 2021/22 (the value of the audit difference has since changed by £0.35 million). For the second, the accounting treatment applied and underlying reasons for this were the same; the project to which it related was the upgrade of the electrical supply to the Queen Alexandra Hospital (QAH) site. The result of the second misclassification was overstatement of AUC by £1.63m with a matching understatement of prepayments. Management chose not adjust these differences in the final financial statements. We were satisfied that neither of the misstatements was as a result of fraud.

No other issues were identified from our testing of capital expenditure.

Audit of the financial statements (continued)

Key findings (continued)

Other risks	Conclusion
Property, plant & equipment valuation	Our work on valuations identified one judgmental audit difference which management chose not to adjust. We were unable to obtain sufficient supporting information regarding the valuation of the internal plant element of the Trust's energy centre to allow us to form a view as to the appropriateness of the valuation of this asset at 31 March 2023. The net book value of this element of the asset was £3.58million.
Going concern	We were satisfied that the use of the going concern assumption was appropriate, and did not identify any matters which would give rise to a material uncertainty paragraph in our auditors report.
IFRS 16 implementation	<p>We identified two audit differences – a factual difference with an impact of £1.09 million on Right of Use (ROU) assets, resulting from the treatment of VAT and application of low value exemptions in the calculation of lease liabilities and right of use asset values, and a projected difference with an impact of £0.68 million on ROU assets resulting from the approach used to the timing of lease payments in the calculations. These differences had a consequential impact on lease liabilities and the Statement of Comprehensive Income.</p> <p>In addition, we identified related misstatements in the lease disclosures in the financial statements.</p> <p>We raised a control observation relating to the implementation of IFRS 16 – see below.</p>
Multi-storey car park (MSCP) commercial development	<p>The Trust had not provided an assessment for elements of the accounting treatment for the MSCP prior to the commencement of the year end audit, but did so during the period of the audit work.</p> <p>We identified an understatement of expenditure and liabilities of £436k, as a result of a liability under IFRS 9 being omitted from the financial statements. This arose from the consideration of whether the contract contains a financial guarantee arrangement needing recognition within the accounts.</p> <p>No other issues were identified from our work. We were satisfied that the treatment of the MSCP under IFRS 16 and IAS 37 was appropriate.</p>

Internal Controls

As part of our audit findings we identified one suggested area for improvement in the control environment in relation to:

- IFRS 16 implementation

Recommendation: We identified issues relating to the calculation of lease liabilities and right of use assets held under IFRS 16 including: the inappropriate inclusion of irrecoverable VAT; the use of incorrect discount rates; the inappropriate application of the low-value lease exemptions; and a lack of documented consideration of the appropriateness of the cost method vs the revaluation method of subsequent measurement.

Management Response: Management intend to continue to work with Ernst & Young to reach agreement on the correct application of the accounting standard where possible. Lessons have been learnt for the application of IFRS16 in future accounting periods.

We identified one risk of significant weakness in the Trust's VFM arrangements for 2022/23.

Our VFM commentary highlights relevant issues for the Trust and the wider public.

We had no matters to report by exception in the audit report.

Scope

We are required to report on whether the Trust has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We have complied with the guidance issued to auditors in respect of their work on value for money arrangements (VFM) in the 2020 Code of Audit Practice (2020 Code) and Auditor Guidance Note 3 (AGN 03). We presented our VFM risk assessment to the Audit Committee members, which was based on a combination of our cumulative audit knowledge and experience, our review of Trust Board and committee reports, meetings with the Chief Financial Officer and Head of Financial Accounting, and evaluation of associated documentation through our regular engagement with Trust management and the finance team.

Reporting

Our risk assessment procedures identified one significant weakness in the Trust's VFM arrangements, shown on the next page. We did not identify any further significant risks during the course of our audit. We were satisfied that no actual significant weaknesses were identified, and therefore had no matters to report by exception in the audit report on the financial statements.

Our commentary for 2022/23 is set out on pages 9 to 13. The commentary on these pages summarises our conclusions over the arrangements at the Trust in relation to our reporting criteria throughout 2022/23.

Appendix A includes the detailed arrangements and processes underpinning the reporting criteria. These were reported in our 2021/22 Auditor's Annual Report and have been updated for 2022/23.

In accordance with the NAO's 2020 Code, we are required to report a commentary against three specified reporting criteria, reflected on the subsequent page.



Value for Money (continued)

	Reporting criteria	Risks of significant weaknesses in arrangements identified?	Actual significant weaknesses in arrangements identified?
<p>We identified one risk of significant weakness in the Trust's VFM arrangements for 2022/23.</p>	<p>Financial sustainability: How the Trust plans and manages its resources to ensure it can continue to deliver its services</p>	<p>The NHS is under continuing financial pressures and needs to make ongoing efficiency savings and improvements, whilst maintaining a clear focus on the quality of care for patients. The Trust continues to face a challenging financial environment from overall financial pressures across the NHS, significant inflationary pressures and an increased demand for services. Additional funding previously provided through the Covid-19 pandemic is being withdrawn.</p> <p>At the time of planning the audit:</p> <ul style="list-style-type: none"> • For 2022/23, the Trust projected a £9.1 million deficit for the year. • The position for 2023/24 looked challenging, There was a £77 million underlying deficit identified in the first operating plan submission, meaning the Trust is developing a plan over a further two years to return to its target of 'living within its means'. • The Trust was planning to contain the 2023/24 deficit to no more than £45 million, including £19.8 million identified cost improvement plans (CIP) and a further £28million to be identified. The total CIP challenge is 5.9% of operating expenditure. The position has evolved, and the latest forecast deficit for 2023/24 was £31 million. 	<p>No significant weaknesses identified.</p> <p>Whilst the Trust had a deficit outturn position for 2022/23, and the scale of the financial challenge for the next two years is significant, we were satisfied that the Trust had appropriate arrangements in place to identify, and plan to meet, these challenges</p>
<p>Our VFM commentary highlights relevant issues for the Trust and the wider public.</p>	<p>Governance: How the Trust ensures that it makes informed decisions and properly manages its risks</p>	<p>No significant risks identified</p>	<p>No significant weaknesses identified</p>
<p>We had no matters to report by exception in the audit report.</p>	<p>Improving economy, efficiency and effectiveness: How the Trust uses information about its costs and performance to improve the way it manages and delivers its services</p>	<p>No significant risks identified</p>	<p>No significant weaknesses identified</p>



Value for Money (continued)

Financial Sustainability: How the Trust plans and manages its resources to ensure it can continue to deliver its services

The Hampshire & Isle of Wight Integrated Care system (HIOW ICS) is under significant financial pressure. The aggregate (unaudited) deficit for the system at the end of 2022/23 was £88.6m. Deficit plans have been produced for 2023/24, and submitted at the required points to NHS England. We understand these plans have been reviewed and revisited, with a trend as set out below.

- March £205m
- April £189.7m
- May £118.4m

At the time of reporting the £118.4m deficit plan submitted at 4 May 2023 was not approved. There is an expectation that the system will be asked to move towards a deficit equivalent to the £88.6m deficit in the 2022/23 outturn.

On 16 May 2023, the NHS England Quality and Performance Committee agreed that the Hampshire and Isle of Wight (HIOW) Integrated Care Board (ICB) and its seven NHS Trusts should be placed into NHS Oversight Framework Segment 4 and would therefore receive support from the National Recovery Support Programme (RSP). This support was agreed to help the HIOW ICS address the scale of its financial deficit in a sustainable way, while also delivering other key commitments to improve access, reduce waiting times and reduce health inequalities set out in the 2023/24 national planning guidance.

The RSP is a nationally led programme of mandated, focused and integrated support for Trusts and systems in Segment 4 and will mean that national and regional NHS England teams will work collaboratively with the ICB and the 7 Trusts to agree key drivers of concerns and better understand the support needs. It will also agree clear and timely exit criteria, plus intervention and oversight arrangements. The support package will be led by an Improvement Director appointed by NHS England.

It is within this overall context that we comment and make our judgements set out below.

The Trust's Finance and Infrastructure (F&I) Committee meets on a monthly basis and is chaired by a non-executive director. The Committee maintains and provides oversight over the financial performance of the Trust. The Committee receives reports on budget setting, the capital programme, investment schemes, and in-year financial performance. It has oversight over the Board Assurance Framework (BAF) and Risk Register to identify and evaluate any changes in financial performance related risks. The Committee can refer matters to the Audit Committee where necessary, and reports to each bi-monthly Trust Board on financial performance and on related strategy matters. The work of the Finance and Infrastructure Committee and regular reporting of key matters to the Trust Board ensures that financial pressures are understood and addressed.

Monthly reporting on financial performance and planning to the F&I Committee, and bi-monthly reporting to the Trust Board, enables the Trust to identify gaps in funding and monitor progress on meeting savings targets. A weekly Cost Improvement Plan (CIP) Delivery Group exists, reporting through the weekly Financial Recovery Board.

Discussion with the Trust's Chief Financial Officer has highlighted the challenging future financial position of the Trust, and that it is likely to need cash support. As a result, one area of focus in our VFM work has been on the arrangements that the Trust has in place in relation to financial sustainability and we identified a significant risk in this regard.



Value for Money (continued)

Financial Sustainability: How the Trust plans and manages its resources to ensure it can continue to deliver its services (cont.)

The audited year-end financial position is a deficit of £10.7m compared to a planned breakeven position. The Trust performed adversely to plan throughout 2022/23 and were off track to meet the breakeven target. This final position was consistent to our understanding of the likely outcome from discussions with management during the year. Although a break-even target was set initially, once it became clear this could not be met the Trust managed its position to a consistently forecast deficit figure, the causes of which were known and clearly articulated. This shows good arrangements to identify and report the financial situation during the year, and then to take appropriate actions.

The Trust's internal reporting shows CIP delivered 98.7% (i.e. £23.2m) of the annual target of £23.5m for the year. This is a notable improvement in delivery when compared to the £5.1m annual target set in 2021/22 (this lower target reflected the pandemic and was in line with comparable NHS organisations). When savings were achieved of £4.6m (88.4% achievement). Therefore, 22/23 represents improvement in all aspects of the delivery in comparison to 21/22.

The Trust has assessed that to return to financial balance will require two years. This is an initial reasonable assumption and, therefore, makes the target more attainable than trying to achieve everything in one year. However, the position for 2023/24 is still a significant challenge.

The Trust has submitted a £31.2m operating deficit as a plan for 2023/24. This equates to the equivalent of 4% of 2023/24 total income and is part of the two year recovery plan laid out by the Trust. This position is underpinned by a £48m total CIP, representing 5.9% of 2023/24 planned operating expenditure. This is a step-up on the 22/23 CIP, and itself will be challenging to deliver. This position is part of a collective financial challenge faced by the Hampshire and IOW System in 2023-24 as it strives to return to financial balance while still delivering the highest possible standards of healthcare for its local populations. The input of the RSP across the system is important, so that individual organisation actions to address financial challenges do not negatively impact on other parts of the health system.

Although there are still significant unidentified savings in the 2023/24 CIP plan resulting in continued revisions in the overall CIP, the CIP schemes we have reviewed appear reasonable. The Trust have a clear CIP allocation and monitoring process which have been laid out to the Board and agreed with Divisions and Corporate Functions. The Trust is also focusing on expenditure run-rate in year one of the two years.

The Trust has a history of operating under financial distress, alongside operational pressures associated with urgent care flow. Pre-COVID, the Trust moved out of Financial Special Measures, achieved a 2020 Use of Resources 'Good' rating and transitioned from a £38m deficit in 2018/19 to having 'lived within its means' from 2019/20 (the full year immediately preceding COVID-19) for three successive years.

Internal Audit's work on CIP in 2022/23 noted an average score of 4.7 out of 5. Internal Audit identified good practice and mentioned that the Trust has financial controls and procedures in place to plan, set, forecast and report its budgets, CIPs, and overall finances within an appropriate governance structure that ultimately reports to the Board. The Trust remains committed to its Working Together strategy, and key policies and plans derive from this. The Care Quality Commission (CQC) inspection undertaken in April-May 2022 rated the Trust as Good overall, and Good in all but one of the sub-criteria reported on, demonstrating consistency of good performance since the previous inspection.

Conclusion: The Trust had the arrangements we would expect to see in 2022/23 to enable it to plan and manage its resources to ensure that it can continue to deliver its services.



Value for Money (continued)

Governance: How the Trust ensures that it makes informed decisions and properly manages its risks

The Trust maintains a Business Assurance Framework (BAF) that highlights its strategic priorities and risks. This is updated before being presented at every monthly Board meeting to show how the Trust is mitigating risks to an acceptable level. The Trust's internal audit and Local Counter Fraud Specialist (LCFS) teams also play a role in helping to mitigate these risks by providing assurance over the effective operation of internal controls and helping to prevent and detect fraud respectively. Both these teams can report directly to the Audit Committee. In 2022/23, Internal Audit gave a Reasonable Assurance opinion on the Trust's Risk Management and BAF. The Audit Committee provides oversight and monitors the Trust's compliance with mandatory NHS Internal Audit Standards.

A financial plan and budget is developed and continuously revisited by the Trust, taking into account national and local planning assumptions as well as local commitments. One of the purposes of this is to assess the core financial gap and determine the CIPs required for the forthcoming year. A more detailed analysis is also prepared regularly by the Trust to ensure consistency with other strategic plans, e.g. operational, performance and workforce plans. The financial plan is reviewed by the F&I Committee before being presented to the Board for approval.

The Chief Financial Officer (CFO) provides monthly reports on financial performance to the Finance and Infrastructure (F&I) Committee. The F&I Committee in turn report to the Trust Board through bi-monthly meetings and this includes further analysis of the Integrated Performance Reports provided by the CFO. The meetings are held regularly to ensure that management information is relevant and timely, enabling correcting action to be taken where necessary.

It is evident from the above that the Board is able to make properly informed decisions based on the receipt of regular, clear and relevant information from the CFO and/or F&I Committee. Any challenges made by non-executive directors are recorded in Board papers and minutes to ensure transparency, as the papers and minutes for each meeting are publicly available. The Board also delegates power to make decisions in an appropriate manner, as set out in the Scheme of Delegation.

The Trust Board's Code of Conduct governs standards at a Board level by detailing expectations of member behaviour. All actual and potential conflicts of interest must be declared by staff and, to increase transparency, this is now incorporated into the annual appraisal process. In May 2022 the CQC undertook a well led inspection at the Trust, concluding that the Trust has a clear strategy with a focus on improvement and its "reset" during the COVID period. The positive comments in the report included mention of a strong Board and executive team who demonstrated pride in the organisation with a commitment to diversity, equality, inclusion and working with the system/ICS going forward. Some negative findings identified were that urgent and emergency care wait times were a challenge and quality metrics reflecting patient harm were regressing. Complaints were also not always responded to in a timely manner. As well as this, the Trust did not have a Director of Governance at the time of the inspection, but it was noted that the executive team were mitigating the impact of this gap through an established governance framework and short-term executive level ownership of the portfolio. In 2022/23 a new Director of Governance & Risk was appointed. The overall rating by the Care Quality Commission (CQC), which is Good, has remained consistent with the previous CQC inspection.

Conclusion: The Trust had the arrangements we would expect to see in 2022/23 to enable it to make informed decisions and properly manage its risks.



Value for Money (continued)

Improving economy, efficiency and effectiveness: How the Trust uses information about its costs and performance to improve the way it manages and delivers its services

As mentioned on the previous page, the Trust's F&I Committee receives detailed financial reports on a monthly basis. The Trust also has a Quality & Performance Committee, which receives regular, detailed reporting on performance against a range of qualitative and quantitative metrics, and oversees clinical quality and effectiveness. In response to the content of these reports, management are held to account as necessary by both Committees. Each committee has a process in place for monitoring agreed actions and escalating matters for Board reporting as required.

The Board also receives direct reports on a range of performance metrics including quality & safety, operational performance, workforce, and finance. The reports highlight performance against planned targets and outcomes. For every performance area, as noted above, there is a Board committee who will have oversight of the actions being identified and taken to address areas where performance is below plan. Such areas are also monitored through the BAF and risk registers, which are regularly reviewed and updated, as we have seen through our Audit Committee attendance.

Integrated Performance Reports (IPRs) are used by Executive Directors to present information on financial and non-financial performance metrics to Committees and the Board and then identify risks and areas for improvement. Key Performance Indicators (KPIs) and specific service targets are identified through the IPR reports and then monitored by the Board on a regular basis. This allows for frequent performance assessment and identification of any areas for improvement.

Internal audit recommendations are also monitored and addressed by management through regular reporting to the Audit Committee. Internal audit is therefore a key part of the Trust's mechanisms for identifying potential areas for improvement, and steps which can be taken to achieve those improvements.

The Trust's 5-year strategy, "Working Together", sets out how the Trust works with partners to achieve its strategic aims and to meet the needs of stakeholders. The Trust has been working within the HIOW ICS since 2021/22 to help work towards financial balance across the region.

The Trust has been working in partnership with Isle of Wight NHS Trust supporting their acute services, and recently appointed a single Chief Executive Officer in April 2023 covering both Trusts. The next steps in the process, dependent on a number of clearly defined decision points, will be to appoint a single Executive team, followed by a common membership of both Trust Boards. The Boards will then be able to meet either as a Group Board, or separately for each Trust as necessary. The single executive team would have a mandate to reform clinical services such that they are planned and delivered for the combined population served by both Trusts, and to integrate corporate teams and functions to bring about shared policies and governance systems. The underpinning aim is to ensure the provision of sustainable services and financial stability across both Trusts.

There are external NHS specialist providers – specifically NHS Supply Chain – to whom the Trust outsources significant elements of procurement. The Trust also has a shared procurement arrangement Isle of Wight NHS Trust, pre-dating the wider partnership described above, to gain the benefits from joint working in this area.

Conclusion: The Trust had the arrangements we would expect to see in 2022/23 to enable it to use information about its costs and performance to improve the way it manages and delivers services.

Appendices



Building a better
working world

Appendix A – Summary of arrangements

Financial Sustainability

Reporting Sub-Criteria	Findings
How the body ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them	The Trust's Finance and Infrastructure (F&I) Committee meets on a monthly basis and is chaired by a non-executive director. The Committee maintains and provides oversight over the financial performance of the Trust. The Committee receives reports on budget setting, the capital programme, investment schemes, and in-year financial performance. It has oversight over the Board Assurance Framework (BAF) and Risk Register to identify and evaluate any changes in financial performance related risks. The Committee can refer matters to the Audit Committee where necessary, and reports to each bi-monthly Trust Board on financial performance and on related strategy matters. The work of the Finance and Infrastructure Committee and regular reporting of key matters to the Trust Board ensures that financial pressures are understood and addressed.
How the body plans to bridge its funding gaps and identifies achievable savings	<p>Monthly reporting on financial performance and planning to the F&I Committee, and bi-monthly reporting to the Trust Board, enables the Trust to identify gaps in funding and monitor progress on meeting savings targets.</p> <p>Performance against Cost Improvement Programmes (CIP) is reported to the F&I Committee. A weekly CIP Delivery Group exists (reporting through the weekly Financial Recovery Board). This will pursue the full Identification of 2023/24 CIP opportunities and maintain the focus upon 'eliminating waste'. The Trust's process for identifying CIPs follows a five-stage delivery model. This starts with an idea/pipeline stage where individuals can log ideas for savings opportunities into the toolkit. A high-level plan is then defined and if agreed as feasible key leads are identified and an indicative value is given. The second stage is called the opportunity phase as the plan is defined in further detail and key actions/milestones are set out. Once this is fully documented, including defining KPIs and risks, this is identified as a "plan in progress" CIP. The next step is that the plan is reviewed and approved and this takes it to the fully developed stage, which in turn allows the CIP to move to the in delivery stage, where it is commenced and any savings are recorded against it. Once the plans move to the fully developed stage they are deemed low risk (also known as green rated), the other stages can contain CIPs identified as low, medium or high risk dependent on the nature of the CIP.</p>
How the body plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities	The Trust has a vision and a long-term strategic plan which articulates how it will deliver its statutory responsibilities. This plan is titled "Working Together" and comprises five key strategic aims which are intended to ensure delivery of quality services. This is further underpinned by the Trust's "True North" objective of "Living within our means & eliminate waste", as reported on to the F&I Committee. The 2023/24 breakthrough objective is to achieve financial balance in future by managing within their monthly budget. These five key strategies inform the Trust's business objectives, with risks to its achievement identified and monitored through the Board Assurance Framework (BAF). The Trust translates its long-term plan into an annual operating plan including the financial plans for enabling sustainable delivery of services. This forms the basis of monthly Trust Board reporting.

Appendix A – Summary of arrangements (continued)

Financial Sustainability (continued)

Reporting Sub-Criteria	Findings
How the body ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system	<p>The F&I Committee has oversight of financial planning and related workforce issues, capital programmes and investment schemes, helping to ensure a co-ordinated approach to these areas. The F&I Committee then reports key matters to each meeting of the Trust Board. In addition, the Integrated Performance Report, taken to each meeting of the Board, reports on a range of performance metrics to enable consistency of planning and strategy, including quality & safety, operational performance, workforce, and finance.</p> <p>The Trust's financial plans include reporting on these wider areas as part of its mechanisms for monitoring the achievement of targets for each of the key performance areas. Where the Trust identifies a risk to target achievement, it incorporates the resulting identified mitigating actions into the BAF, which enables it to identify the necessary financial resources required to implement the actions. Financial reporting in May 2023 has also reflected the Trust's role in achieving future financial balance across HloW ICS as a whole.</p> <p>Oversight of the Trust's role within the local Integrated Care System is provided by the Trust's committees where relevant to their area of responsibility, with overall review by the Board.</p>
How the body identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans	<p>The F&I Committee receives monthly financial performance reporting which includes actual financial outturn as well as the expected/projected outturn position for the financial year. The report also highlights key risks to achieving the planned position, any changes to the original budgeted plan and how the Trust plans to address any related new risks.</p> <p>In the May 2023 Trust Board Papers, management acknowledged that the adverse variances in the Trust's Month 1 results demonstrate the scale of risk and challenge within their 2023/24 financial plan. As next steps, the Trust's Financial Recovery Board will oversee the divisional expenditure and workforce controls review, recognising the impact on 2023/24 current planning assumptions. The Trust recognises changes and the accompanying uncertainty and increased risk within its BAF and risk register, demonstrating how it identifies significant financial pressures and builds them into their short term and medium-term plans. Financial reporting and the BAF are then considered at Trust Board meetings, providing Board-level oversight. The immediate focus for the Trust is on delivering the committed Year 1 (of the 2-year financial recovery plan) run-rate reductions. The Trust's focus going forward is on financial run-rate to return to balance over 2 years, and an organisational reset to move back towards meeting key strategic priorities in the 5-year plan.</p>

Appendix A – Summary of arrangements (continued)

Governance

Reporting Sub-Criteria

Findings

How the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud

The Trust's BAF is regularly reviewed and updated to align to its strategic priorities and risks. The BAF outlines the actions being undertaken by the Trust to provide assurance that risks are being mitigated to an acceptable level.

The BAF is supported by corporate and service risk registers. The risks assessed within these registers are wider than just financial, due to the nature of the Trust's activities, with significant focus also on performance, including against national clinical targets. The Trust assesses the impact of risks through the use of a matrix of likelihood and occurrence, with a combined score produced to assess the importance of the risk. The Trust has a risk appetite statement that defines acceptable levels of risk for its activities and summarises its approach in its publicly available Annual Report.

The Trust has an internal audit service to help gain assurance over the effective operation of internal controls. It also has a Local Counter Fraud Specialist (LCFS) as part of its arrangements to prevent and detect fraud. Both Internal Audit and the LCFS have direct lines of communication with the Audit Committee. In 2021/22, Internal Audit gave a Reasonable Assurance opinion on the Trust's Risk Management and BAF as well as a Reasonable Assurance report regarding operational culture supporting efficient and effective operations. The Trust has received one limited assurance report in 2022/23 relating to Mandatory and Statutory Training. According to the report, failure to achieve compliance with the Trust's mandatory training target figure of 85% increases the risk of reputational damage and financial damage to the Trust. Management have responded to this, recognising the need for improved staff engagement at corporate and local inductions, Divisional Board and Care Group meetings, Reporting and Governance of training compliance via Workforce Committee, etc.

Oversight is provided by the Audit Committee, which reviews the effectiveness of internal audit arrangements, to ensure they meet mandatory NHS Internal Audit Standards. Trust management is responsible for responding to the internal audit and counter fraud findings appropriately and in a timely manner, with monitoring and challenge from the Audit Committee. The Accountable Officer is responsible for reviewing the adequacy of internal control across the Trust, and reports on this in the Annual Report.

How the body approaches and carries out its annual budget setting process

The Trust develops its financial plan and budget using multiple co-ordinated processes. The core financial gap is quantified to inform the scale of the cost improvement plans required for forthcoming year. National and local planning assumptions, as well as known local commitments, are factored into these considerations. The Trust also develops a granular level of activity, income, expenditure, workforce requirements, capacity and efficiency planning. These plans are then considered alongside operational, performance and workforce plans to ensure consistency.

The financial plan is reviewed by the F&I Committee before being presented to the Board for approval.

Appendix A – Summary of arrangements (continued)

Governance (continued)

Reporting Sub-Criteria	Findings
<p>How the body ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed</p>	<p>The Chief Financial Officer oversees the operation of the Trust’s Standing Financial Instructions including the rules relating to budgetary control, banking, losses and controls over income and expenditure transactions. The F&I Committee provides oversight to ensure that effective processes and systems are in place regarding budgetary control and receives monthly reports on financial performance from the CFO. The F&I Committee then reports to the bi-monthly meetings of the Trust Board, and there is further consideration of the Integrated Performance Report, covering financial and non-financial information, at each Board meeting. The frequency and detail of reporting ensures that management information is relevant and timely, enabling correcting action to be taken where necessary.</p> <p>Internal Audit report to each Audit Committee on the responses to their recommendations, including those regarding budgetary and financial control. There is a clear focus on ensuring that recommendations are appropriately actioned.</p>
<p>How the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee</p>	<p>The effective operation of the Board, supported with regular, clear, and relevant information is the Trust’s key tool for ensuring that it makes properly informed decisions. Board papers and minutes evidence the challenge made by non-executive members and transparency is ensured as the papers and minutes for each meeting are publicly available. The Scheme of Delegation (and its pandemic amended version) sets out how the Board delegates power to make decisions in an appropriate manner.</p> <p>The Audit Committee meets at least quarterly, and is comprised of appropriately skilled and experienced members. The Committee has clear terms of reference which emphasise the Committee’s role in providing effective challenge and it has an annual work plan to help ensure that it focuses on the relevant aspects of governance, internal control and financial reporting. Committee members provide robust and constructive challenge of management and key outcomes are reported to the Board.</p>

Appendix A – Summary of arrangements (continued)

Governance (continued)

Reporting Sub-Criteria

How the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour (such as gifts and hospitality or declarations/conflicts of interests)

Findings

Standards at a Board level are governed by the Trust Board's Code of Conduct, which details expectations of member behaviour. Staff are required to declare all actual and potential conflicts of interest, and this is now incorporated into the annual appraisal process to ensure increased transparency.

The Trust's Standards of Business Conduct policy sets out the rules which must be followed regarding conflicts of interest, gifts & hospitality, and sponsorship. All gifts and hospitality with a value over £25 must be declined under this policy. This was temporarily raised to £100 in recognition of gifts received from the public as a result of the dedication shown by Trust staff during the peaks of the COVID-19 pandemic, but has returned to its former level.

The Trust maintains its Standing Orders and Standing Financial Instructions as a regulatory framework for business conduct, to ensure legislative and regulatory requirements are met. Compliance with these is reported to each meeting of the Audit Committee.

The Trust's "Our Values" document, which details its core values, is publicly available from its website. This has been formulated with inputs from patients and staff as part of the Trust's overall strategy-setting.

In May 2022 the CQC undertook a well led inspection at the Trust, concluding that the Trust has a clear strategy with a focus on improvement and its "reset" during the COVID period. It stated that there was a strong board and executive team who demonstrated pride in the organisation with a commitment to diversity, equality, inclusion and working with the system/ICS going forward. The negatives flagged are that urgent and emergency care wait times are a challenge and quality metrics reflecting patient harm were regressing. Complaints were also not responded to in a timely manner. As well as this, the Trust did not have a Director of Governance at the time of the inspection, but it is noted that the executive team are mitigating the impact of this gap through an established governance framework and short-term executive level ownership of the portfolio. In 2022/23 a new person was appointed as Director of Governance & Risk. The overall rating has remained consistent with the previous inspection (Good).

Appendix A – Summary of arrangements (continued)

Improving economy, efficiency and effectiveness

Reporting Sub-Criteria	Findings
How financial and performance information has been used to assess performance to identify areas for improvement	<p>The Trust has a F&I Committee, which considers detailed financial reporting on a monthly basis. The Trust also has a Quality & Performance Committee, which receives regular, detailed reporting on performance against a range of qualitative and quantitative metrics, and oversees clinical quality and effectiveness. Both Committees hold management to account as necessary in response to the content of these reports. Each committee has a process in place for monitoring agreed actions and escalating matters for Board reporting as required.</p> <p>The Board furthermore receives directly reports on a range of performance metrics including quality & safety, operational performance, workforce, and finance. The reports clearly outline performance against planned targets and outcomes. Depending on the performance area, as noted above, a Board committee will have oversight of the actions being identified and taken to address areas where performance is below plan. Key areas of concern are also monitored through the BAF and risk registers, which are regularly reviewed and updated which we have seen through our Audit Committee attendance.</p>
How the body evaluates the services it provides to assess performance and identify areas for improvement	<p>Executive Directors present information to Committees and the Board on financial and non-financial performance metrics through the Integrated Performance Reports, which are then used to identify risks and areas for improvement. These reports clearly identify KPIs and specific service targets which are then monitored by the Board on a regular basis. This allows for frequent performance assessment and identification of any areas for improvement.</p> <p>Internal audit is also key part of the Trust's mechanisms for identifying potential areas for improvement, and steps which can be taken to achieve those improvements. Reporting to Audit Committee demonstrates that internal audit recommendations are monitored and addressed.</p> <p>When areas of risk which could prevent delivery of the Trust's strategic objectives are identified, these are added to the BAF, where they are considered at Board level and mitigating strategies are planned.</p> <p>The Trust is also regularly inspected by the Care Quality Commission and the outcome of the most recent inspection was an overall rating of "Good", with a rating of "Good" also achieved in all except one of the sub-areas of the CQC report. The Trust was also specifically rated "Good" for well-led services. This evidenced significant improvement in the Trust's arrangements and performance since the preceding review.</p> <p>The Trust publishes an annual Quality Account outlining its performance against a wide range of quality measures.</p>

Appendix A – Summary of arrangements (continued)

Improving economy, efficiency and effectiveness (continued)

Reporting Sub-Criteria

Findings

How the body ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve

The Trust's 5-year strategy, "Working Together", sets out how the Trust works together with partners to achieve its strategic aims and to meet the needs of stakeholders. In particular, the Trust has regional relationships including the Hampshire and Isle of Wight Sustainability and Transformation Partnership (STP), which is a strategic alliance with other local healthcare providers. This is transitioning to the ICS. The Trust has been working within the Hampshire and IOW ICS since 2021/22 to help ensure financial balance across the region.

The Chairman holds joint-chairing responsibility of both Portsmouth Hospitals University NHS Trust and Isle of Wight NHS Trust. Two other Non-Executive Directors hold appointments as Non-Executive Directors of both Trusts. Isle of Wight NHS Trust and Portsmouth Hospitals University NHS Trust entered into an Acute Services Partnership in 2020 to address the clinical and financial sustainability of small and fragile hospital services on the Isle of Wight. The two Trusts continue to be separate statutory organisations.

The Trust works together with a number of smaller local providers including primary care/GP practices and community care organisations to meet the needs of the public in the geographical area it serves.

The Trust furthermore has close working relationships with the Ministry of Defence (MoD), and Portsmouth University. Students are trained at the Trust, and an agreement with the MoD means training is provided for military doctors, nurses and allied health professionals. These relationships are further evidenced through non-executive appointments at the Trust - retired head of the Royal Navy Medical Services, Inga Kennedy, is a serving non-executive director, as is the Vice Chancellor of the University of Portsmouth, Graham Galbraith.

As noted above, the Trust has a range of measures for monitoring delivery against strategic and performance goals, and these incorporate measures relating to partnership working. The Trust Strategy has clear objectives to work with partners including identified outcomes and measures.

How the body ensures that commissioning and procuring services is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses whether it is realising the expected benefits

Significant elements of procurement are outsourced to NHS specialist providers with expertise in their field. In particular, certain business services are provided by NHS Supply Chain. The Trust has also established a procurement partnership with Isle of Wight NHS Trust to gain the benefits from joint working in this area.

The Trust's standing financial instructions give clear guidance on the tendering process for contracts and rules around general expenditure. This gives staff clear guidelines based on relevant legislation and standards for the purchase of goods and services. There are further details on these policies in the standing orders.

The Audit Committee receives reports on single tender waivers, with individual information on any with a value over £50k.

The F&I Committee has oversight of the contracts register and receives reports on business cases supporting any major new contracts being entered into.



Appendix B – Certificate

Certificate

INDEPENDENT AUDITOR'S REPORT TO THE DIRECTORS OF PORTSMOUTH HOSPITALS UNIVERSITY NHS TRUST

Issue of audit opinion on the financial statements

In our audit report for the year ended 31 March 2023 issued on 29 June 2023 we reported that, in our opinion, the financial statements:

- gave a true and fair view of the financial position of Portsmouth Hospitals University NHS Trust as at 31 March 2023 and of its expenditure and income for the year then ended;
- had been properly prepared in accordance with the Department of Health and Social Care Group Accounting Manual 2022 to 2023; and
- had been prepared properly in accordance with the National Health Service Act 2006.

Certificate

In our report dated 29 June 2023, we explained that we could not formally conclude the audit on that date until we had issued our Auditor's Annual Report for the year ended 31 March 2023. We have now completed our procedures and no matters have come to our attention that would have resulted in a different opinion on the financial statements or additional exception reporting on significant weaknesses in the Trust's value for money arrangements.

We certify that we have completed the audit of the accounts of Portsmouth Hospitals University NHS Trust in accordance with the requirements of the Local Audit and Accountability Act 2014 (as amended) and the Code of Audit Practice.

Kevin Suter
Ernst + Young LLP

Kevin Suter (Key Audit Partner)
Ernst & Young LLP (Local Auditor)
Southampton
11 September 2023

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