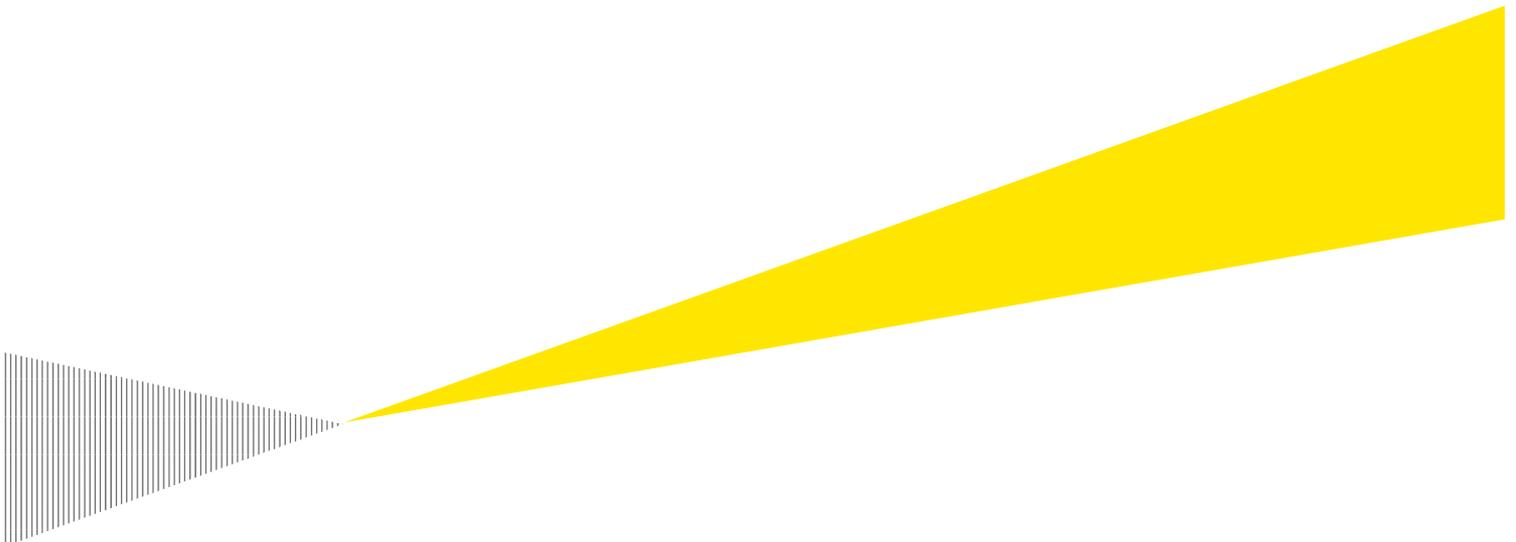


# Portsmouth Hospitals NHS Trust

Annual Audit Letter for the year ended 31 March 2013

Issued 18 July 2013



**EY**

Building a better  
working world

The Board of Directors  
Portsmouth Hospitals NHS Trust  
Queen Alexandra Hospital  
Southwick Hill Road  
Portsmouth  
Hampshire  
PO6 3LY

18 July 2013

Dear Board members,

### **Annual Audit Letter 2012/13**

The purpose of this Annual Audit Letter is to communicate to the Directors of Portsmouth Hospitals NHS Trust and external stakeholders, including members of the public, the key issues arising from our work which we consider should be brought to their attention.

We have already reported the detailed findings from our audit work to those charged with governance of the Trust in the 2012/13 Audit Results Report which was issued on 6 June 2013. The matters reported here are the most significant for the Trust.

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

Yours faithfully



Helen Thompson  
For and behalf of Ernst & Young LLP  
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# Executive summary

## Responsibilities

Our 2012/13 audit work has been undertaken in accordance with the Audit Plan that we issued on 15 March 2013 and is conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

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.

As auditors we are responsible for:

- ▶ forming an opinion on your financial statements;
- ▶ forming a conclusion on the arrangements that the Trust has in place to secure economy, efficiency and effectiveness in its use of resources;
- ▶ reviewing, and reporting on as appropriate, other information published with the financial statements, including the annual governance statement, the annual report and the remuneration report; and
- ▶ undertaking any other work specified by the Code of Audit Practice.

Summarised below are all elements of our work:

Audit the financial statements of Portsmouth Hospitals NHS Trust for the financial year ended 31 March 2013 in accordance with International Standards on Auditing (UK & Ireland)	<b>On 7 June 2013 we issued an unqualified audit opinion in respect of the Trust.</b>
Report to the Trust on its summarisation schedules	<b>On 7 June 2013 we issued an unqualified report on the Trust's summarisation schedules</b>
Report to the National Audit Office on the accuracy of summarisation schedules	<b>We reported our findings to the National Audit Office on 7 June 2013.</b>
Form a conclusion on the arrangements the Trust has made for securing economy, efficiency and effectiveness in its use of resources.	<b>On 7 June 2013 we issued an 'except for' qualified value for money conclusion.</b>
Issue a report to those charged with governance of the Trust (the Audit Committee) communicating significant findings resulting from our audit.	<b>On 6 June 2013 we issued our report to the Trust.</b>
Consider the information published with the financial statements, including the Trust's annual governance statement and annual report. We identify any inconsistencies with other information of which we are aware from our work and consider whether it complies with guidance published by the Department for Health.	<b>On 7 June 2013 we issued our report.</b>

Issue a report on the Quality Accounts of Portsmouth Hospitals NHS Trust.

**On 27 June 2013 we issued a qualified limited assurance audit report.**

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Summarise the results of any local Payment By Results (PBR) audit programme undertaken by Capita Business Services Ltd.

**A summary is provided in section 2.4.**

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Consider whether, in the public interest, we should make a report on any matter coming to our attention in the course of the audit.

**No issues to report.**

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Determine whether any other action should be taken in relation to our responsibilities under the Audit Commission Act, including whether a referral to the Secretary of State should be made.

**No issues to report.**

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Issue a certificate that we have completed the audit in accordance with the requirements of the Audit Commission Act 1998 and the Code of Practice issued by the Audit Commission.

**On 27 June 2013 we issued our audit completion certificate following the completion of our work on the Quality Account.**

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## Key findings

### Financial statement audit

We audited the Trust's Statement of Accounts in line with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission and issued an unqualified audit report on 7 June 2013.

In our view, the underlying quality of the process for producing the accounts, including the supporting working papers, was good. A summary of the key areas of risk and our work to address these are documented below:

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#### **Significant risk: Risk of Financial Manipulation: Audit findings and conclusions**

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Management has the primary responsibility to prevent and detect fraud. It is important that management, with the oversight of those charged with governance, has put in place a culture of ethical behaviour and a strong control environment that both deters and prevents fraud.

Our responsibility is to plan and perform audits to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatements whether caused by error or fraud. Given the pressure on the Trust to deliver its forecast year-end position, we have identified a risk of financial misreporting.

There are no significant issues that we need to report from the work we completed.

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#### **Significant risk: Turnover of Key Staff**

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Within 2012/13 the Trust has experienced some significant changes in key personnel within the finance department. Both the Director of Finance, Deputy Director of Finance and Financial Controller have left the organisation within the last 12 months.

Such changes in experienced personnel present a significant risk to the accurate production of the Trust's financial statements.

There are no significant issues that we need to report.

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#### **Other findings: Technical adjustments to the financial statements**

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As outlined in our audit plan the Trust proposed four technical accounting adjustments:

- ▶ the sale of the St Mary's site;
- ▶ accounting for partially completed patient spells (clinical WIP);
- ▶ accounting for PFI lifecycle costs; and
- ▶ the technical accounting adjustment required due to the PFI being accounted for under International Financial Reporting Standards (IFRS).

There are no significant issues that we need to report from the work we carried out.

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### Value for money conclusion

We are required to carry out sufficient and relevant work in order to conclude whether the Trust has put in place proper arrangements to secure economy, efficiency and effectiveness in the use of resources.

In accordance with guidance issued by the Audit Commission, in 2012/13 our conclusion was based on two criteria:

- ▶ the organisation has proper arrangements in place for securing financial resilience; and
- ▶ the organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

Following the performance of the procedures outlined in our Audit Plan, we issued an “except for” qualified value for money conclusion in relation to securing financial resilience based on the following evidence:

- ▶ the Trust was reliant on a number of one off non recurring items to deliver its 2012/13 financial plan; it has submitted a deficit plan for 2013/14; and is yet to integrate fully workforce and financial plans; and
- ▶ there was insufficient accountability at Clinical Service Centre level and lack of clarity over roles and responsibilities which meant that the significance of the worsening financial performance of the Trust was not identified until August 2012.

We note that the Trust is developing and implementing detailed plans to address these issues.

## Quality Account

In June 2013 we issued our report on the Trust’s Quality Account. Due to control weaknesses identified in the Trust’s processes to produce the percentage of patient safety incidents resulting in severe harm or death we issued a qualified Limited Assurance Report to the Trust.

## Payments by Results (PbR) Data Assurance Framework

The Audit Commission appointed Capita to manage and deliver the 2012/13 PbR assurance programme. The PbR data assurance framework requires this work to be summarised in our Annual Audit Letter.

This work is performed by Capital Business Services Limited and not under the direction and supervision of Ernst & Young. We do not accept responsibility to the Trust nor to any third party for the work undertaken or summary findings below.

### Finding 1: Improve the quality of case notes

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Improve the quality of case notes by implementing the action agreed in 2011/12 follow-up report which stated that:

- ▶ The Trust should ensure that there is a programme of education, training introduced on the back of the culling team’s work and that stronger governance arrangements are embedded to drive through the culture change needed.
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### Finding 2: Accuracy of obstetric coding

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Obstetric clinicians should write the information on procedures and diagnosis that are relevant for clinical coding purposes on to the electronic system or coders should use the case notes for coding purposes.

Coders should work with obstetric clinicians so they are clear what level of detail is needed.

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## Department of Health group instructions

We reported to the National Audit Office (NAO) on 7 June 2013 the outcomes of our review of your summarisation schedules conducted under the departmental account group instructions issued by the NAO in December 2012. We did not identify any areas of concern.

## **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 Department of Health guidance. We asked the Trust to update the draft statement that was provided to include reference to the financial pressures faced by the Trust.

## Control themes and observations

As part of our audit of the financial statements, 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 of internal control we communicated to those charged with governance at the Trust, as required, significant deficiencies in internal control.

We did not identify any significant internal control deficiencies. However, we did report a small number of internal control matters in our Audit Results Report. These were accepted by the Trust and will be followed up in next year's audit.

## Fees update

A breakdown of our agreed fee is shown below.

	Proposed final fee 2012/13 £	Planned fee 2012/13 £	Scale fee 2012/13 £	Explanation of variance
<b>Total Audit Fee – Code work</b>	<b>119,760</b>	<b>118,000</b>	<b>118,000</b>	<b>Additional work undertaken on the Trust’s Quality Account</b>
Non-audit work (provide details)	<b>0</b>	<b>0</b>	<b>0</b>	N/a

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