

REPORT TO THE BOARD OF DIRECTORS OF

## **Southend Care Ltd**

**Audit of the Financial Statements  
For the Year Ended 31 March 2020**





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- LETTER OF REPRESENTATION



# 1. Introduction and Coverage

- 1.1 This report summarises our key findings in connection with the audit of the financial statements of Southend Care Ltd in respect of the year ended 31 March 2020.
- 1.2 The scope of our work was set out in our Assignment Terms Letter issued in April 2020.
- 1.3 It should be noted that the matters identified in this management letter arose from the conduct of our normal audit procedures which are designed primarily to enable us to express an opinion on the financial statements of Southend Care Ltd and do not necessarily involve an examination of all aspects of your internal control procedures. The responsibility for maintaining adequate financial reporting systems and systems of internal control, as well as for the prevention and detection of fraud, irregularities and other errors, rests with management.
- 1.4 Consequently, the comments in our management letter cannot be regarded as a complete analysis of all weaknesses or irregularities in the system of internal control.
- 1.5 Our duties as financial statements auditors do not specifically include searching for fraud or other irregularities although our audit was planned so as to have a reasonable expectation of detecting material mis-statements within the financial statements.
- 1.6 Our work also included a review of the adequacy of disclosures in the financial statements and consideration of the appropriateness of the accounting policies and estimation techniques adopted by the company.



## 2. Financial Performance

### Profit and Loss Account

#### 2.1 RESULTS

- 2.1.1 The financial statements are for the year ended 31 March 2020. The results for the previous year to 31 March 2019 have been restated in respect of a revised valuation produced by the Local Government Pension Scheme Actuary. The revision to the liability at 31 March 2019 was provided after the date of the approval of the 2019 financial statements. The impact of this revision was to increase the pension liability by £259,000.
- 2.1.2 After excluding the IAS19 adjustments for the defined contribution pension liability, Southend Care Ltd's financial performance in 2019/20 shows a profit for the year of £325,298 compared to a profit in 2018/19 of £319,813.
- 2.1.3 The impact of the adjustment for the IAS19 defined benefit pension scheme charge of £812,000 has created a deficit of £486,702.

#### 2.2 INCOME

- 2.2.1 Revenue for the year totalled £7,955,018 (2019: £6,579,780).
- 2.2.2 Block funding income totalled £7,693,435 for the year ended 31 March 2020 (2019: £6,453,961).
- 2.2.3 Other income represents the sale of meals, intensive one to one sessions and private income.



## 2. Financial Performance

### Profit and Loss Account (Continued)

#### 2.3 EXPENDITURE

2.3.1 Expenditure, excluding pension scheme adjustments under (IAS19), totalled £7,638,200 for the year ended 31 March 2020 (2019: £6,251,488).

2.3.2 Staff costs totalled £6,729,746 this is broken down as follows:

	2020	2019
	£	£
Wages	5,214,433	4,386,298
Employer's NI	388,559	357,766
Employer's pension	580,103	543,726
Recruitment	53,292	17,782
Training	15,064	4,944
Insurance	10,320	6,304
Agency	467,975	248,678
<b>Total</b>	<b><u>£ 6,729,746</u></b>	<b><u>£ 5,565,498</u></b>

2.3.3 Administrative expenses totalled £893,227 for the year ended 31 March 2020 (2019 : £647,637), this is broken down as follows:

	2020	2019
	£	£
Premises costs	209,435	158,834
Transport costs	44,269	33,151
Supplies and services	487,082	348,058
Third party payments	17,408	1,347
Irrecoverable VAT	135,033	106,247
<b>Total</b>	<b><u>£ 893,227</u></b>	<b><u>£ 647,637</u></b>



## 3. Financial Position – Balance Sheet

### 3.1 CASH AT BANK

3.1.1 Cash at bank has decreased by £33,166 to £477,464 (2019: £510,630).

### 3.2 PENSION SCHEME DEFICIT

3.2.1 For the year ended 31 March 2020 the pension scheme deficit has decreased by £852,000 leaving a pension scheme deficit at 31 March 2020 of £4.920m. The assumptions used by the actuary are as follows:

	31 March 2020	31 March 2019
Rate of increase in salaries	2.85%	3.9%
Rate of increase in pensions	1.85%	2.4%
Discount rate	2.35%	2.45%

### 3.3 RELATED PARTY TRANSACTIONS

3.3.1 At the year end the following balances were outstanding with the Company's parent entity Southend on Sea Borough Council:

	31 March 2020 £	31 March 2019 £
Debtor	778,143	613,512
Short term creditor	623,566	514,815
Long term creditor working capital	-	350,000
Long term creditor	-	14,573



## 4. Going Concern

### 4.1 GOING CONCERN REVIEW

- 4.1.1 The Company has repaid the long-term loans provided by Southend on Sea Borough Council, its parent, during the year and continues to trade profitably. However, due to the inclusion of the Local Government Pension Scheme deficit, the company's balance sheet remains in deficit.
- 4.1.2 Consideration needs to be given to the global financial impact of the Covid-19 pandemic and the difficulties this may raise in the operations of the company's activities, that of its service users and suppliers. The company has considered its plans and actions and has concluded that the accounts can still be prepared on the going concern basis, with the appropriate disclosures included within the accounting policies.
- 4.1.3 Southend on Sea Borough Council have provided written confirmation that they will continue to provide financial support to the Company.

### 4.2 CONCLUSION

- 4.2.1 Based on the ongoing commitment of support by Southend on Sea Borough Council we agree with the going concern assessment made by the Company and will therefore be giving an unqualified audit opinion on the financial statements for the year ended 31 March 2020.





## 5. Pension Scheme Deficit

### 5.1 MOVEMENT IN LIABILITY FOR THE YEAR

- 5.1.1 Southend Care Ltd is required to record its share of the deficit of the Local Government Pension Scheme (LGPS) as a liability on its balance sheet, as prescribed by IAS 19. It should be noted that the staff transferred over by TUPE from Southend on Sea Borough Council are members of the LGPS and it is not open to new employees.
- 5.1.2 It is a career average or CARE scheme, meaning that pensions are based on career average revalued earnings. Earnings in previous years are revalued in order to derive the average earnings of each employee up to the point of retirement. The pension payable is based on those average revalued earnings and the years of service in the Scheme.
- 5.1.3 The pension liability that arises is conceptually the 31 March 2020 value of the future obligations to pay the pensions which have accrued to relevant current and past employees by reference to their service with Southend Care Ltd up to that date to the extent that these obligations are not covered by investments within the Southend Care Ltd portion of the LGPS.
- 5.1.4 The valuation at 31 March 2020 is based on the formal valuation of the scheme for funding purposes (which was undertaken as at March 2019) as modified by changes since that date.
- 5.1.5 The net liability decreased by £852,000 in the year ended 31 March 2020 to £4.920 million. There are a number of factors that have resulted in this decrease, but the most significant changes are:
- The rate of increase in salaries has fallen from 3.9% in 2019 to 2.85% in 2020. The rate of increase in salaries is now based on CPI + 1% (for incremental drift) rather than RPI, as it has been previously. The impact of this change has reduced the liability by £651,000.
  - The rate of increase in pensions has also fallen from 2.4% in 2019 to 1.85% in 2020. This reduction is also as a result of this assumption now being based on CPI rather than RPI. The impact of this change is to reduce the liability by £1,754,000.





## 5. Pension Scheme Deficit (Continued)

- The discount rate has fallen from 2.45% to 2.35%. This discount rate is based on an AA rated corporate bond yield and the drop in the bond markets has been the most significant factor in the increase in pension liabilities since the 2008 financial crisis. The impact of this 0.1% change in discount rate is estimated to be around £388,000 increase in the net liability.
- The life expectancies across three categories (based on gender and time until retirement) have increased with the exception of females due to retire in twenty years, which has fallen. These life expectancies are based on the latest actuarial tables. However due to the blend of staff employed by Southend Care Limited the impact of these demographic changes is to reduce the liability by £272,000.
- The schemes assets have suffered most significantly and this reduction in valuation will take in market conditions as a result of the Covid-19 situation. The actuarial valuation is showing a £972,000 reduction in the return on assets against expectation. It has been assumed that there will be a further negative return of 5% in the current year.

## 6. Outstanding audit issues

- 6.1.1 As a result of restrictions in place from the Covid-19 pandemic, the audit has been carried out remotely this year. We appreciate the assistance provided by both the staff at Southend Care and the finance team at Southend on Sea Borough Council.
- 6.1.2 Carrying out the work remotely has made it more difficult to obtain all the audit evidence required and at the date of this report the following information is still required to enable us to finalise the audit, we include in section 7 the implications of this evidence not being available:
- Supporting documentation on the payroll sample in respect of pay grade, we have received verbal confirmation from the SBC payroll department but we need documented evidence.
  - Proof of existence documents for the payroll sample selected.
  - Confirmation of receipt of a debt from the selected sample.



## 7. Audit and Accounting Issues to be reported to the Board of Directors

### 7.1 PROCEDURAL RECOMMENDATIONS

Audit Finding	Risk Identified	Recommendation	Management Response
<p><b>Personnel Files</b></p> <p>During our testing the Human Resources Department could not locate all necessary personnel documentation.</p> <p>This was caused in part by limitation of access to the Southend on Sea Borough Council offices, but it has not been possible to conclude our testing in this area.</p>	<p>It is a legal requirement to retain certain employment related documents for all of your current employees.</p>	<p>We recommend undertaking a review of your personnel files to ensure that files are maintained for all of your current staff and these are easily traceable.</p> <p>We recommend that there is a minimum requirement to retain certain documents, including proof of existence documents and documentation of pay rates. We would also suggest that these are retained and stored electronically for ease of access if required.</p>	



## 7. Audit and Accounting Issues to be reported to the Board of Directors (Continued)

### 7.1 PROCEDURAL RECOMMENDATIONS (CONTINUED)

Audit Finding	Risk Identified	Recommendation	Management Response
<p><b>Credit Control</b></p> <p>It has not been possible to conclude our testing of amounts receivable as the debtor selected has not been recovered.</p> <p>Whilst the company does not consider there to be an issue in recovering this debt, it does acknowledge a weakness in the credit control process.</p> <p>We have added a point to our Letter of Representation in respect of the recoverability of this debtors as evidence could not be obtained by conventional testing.</p>	<p>The company could suffer bad debts by failing to promptly collect debts as they fall due.</p> <p>As the amounts of privately generated income increases this exposure increases and could give rise to a material issue.</p>	<p>We would recommend that the credit control process is formalized to include the process for reviewing and escalating overdue debts as appropriate.</p> <p>There should be a review process at each month end of amounts outstanding and once debtors exceed 60 days this should be escalated to senior management to decide if more direct recovery is required.</p> <p>The company may need to consider the inclusion of a bad debt provision if a history of defaults is found.</p>	



## **7. Audit and Accounting Issues to be reported to the Board of Directors (Continued)**

### **7.2 TAXATION**

- 7.2.1 Following our report to the Board last year it was agreed to move forward with trying to obtain a dispensation from corporation tax for the company. This request for dispensation was on the basis that Southend Care Ltd is a local authority trading company which earned its income predominantly from its Local Authority parent.
- 7.2.2 Whilst the application was made in the summer of 2019 confirmation that the dispensation had been granted was not received until the end of that year. However, it was granted retrospectively to cover the year ended 31 March 2019 and will remain in place for five years. The corporation tax provided in the previous year's financial statements has therefore been reversed, as is no longer payable, this leads to the credit in the profit and loss account this year.
- 7.2.3 It is important to note that the dispensation is granted assuming that similar levels of trading with the Local Authority parent will continue. If the level of external income was to increase considerably the company would need to notify HMRC of the change of circumstances.

### **7.3 AMENITIES ACCOUNTS**

- 7.3.1 As noted last year, following on from the work commissioned from internal audit we have reviewed whether the balances of amenities funds should be included on the Balance Sheet of the company. Following discussions with the company, it is clear that the intention was not for these balances to be managed or controlled by the company, however employees of Southend Care are the cheque signatories on the accounts.
- 7.3.2 Were adjustment to be made for these amounts the postings would only be shown on the balance sheet, being to introduce the cash at bank and to bring in a related creditor to reflect that these sums need to be paid out. The total of amounts held in these accounts is £60,971.



## **7. Audit and Accounting Issues to be reported to the Board of Directors (Continued)**

- 7.3.3 Following a meeting with senior management and the finance team at Southend on Sea Borough Council it was agreed to incorporate these accounts within the company's financial statements for 2020/21. Policies and procedures have been developed and the funding received to date will be reviewed to ascertain if costs should be allocated against such funds. This process should ensure that moving forward the controls, procedures and accounting of the amenity funds will be much more robust and appropriate for the levels of income arising.

## **8. Independence**

- 8.1 In accordance with International Standard on Auditing (UK and Ireland) 260 "Communication of audit matters with those charged with governance", there are no changes to the details of relationships between Scrutton Bland LLP and its related entities and Southend Care Ltd and its related entities that may reasonably be thought to bear on Scrutton Bland LLP's independence and the objectivity of the audit principal, Timothy O'Connor and the audit staff and the related safeguards from those disclosed in the Assignment Terms Letter.

## **9. Conclusions**

- 9.1 The 2019/20 financial statements audit has been conducted in accordance with our audit plan. We are pleased to report that no significant matters came to our attention during the course of our audit that led us to deviate from our plan.
- 9.2 We would like to take this opportunity once again to thank both the team at the company and at Southend on Sea Borough Council for their considerate help and assistance provided in carrying out our audit.

Scrutton Bland LLP  
Date: 23 June 2020

**Cambridge**

Milton Hall  
Ely Road  
Milton  
Cambridge  
CB24 6WZ

01223 928065

**Colchester**

820 The Crescent  
Colchester Business Park  
Colchester  
Essex  
CO4 9YQ

01206 838400

**Diss**

Chancery House  
Victoria Road  
Diss  
Norfolk  
IP22 4HZ

01379 643444

**Ipswich**

Fitzroy House  
Crown Street  
Ipswich  
Suffolk  
IP1 3LG

01473 267000



**SOUTHEND CARE LIMITED**  
**Civic Centre**  
**Victoria Avenue**  
**Southend-on-Sea**  
**SS2 6ER**  
**Company Number: 10138562**  
**A company registered in England & Wales**

Scrutton Bland LLP  
Chartered Accountants and Statutory Auditor  
820 The Crescent  
Colchester Business Park  
Colchester  
Essex  
CO4 9YQ

Dear Sirs

**LETTER OF REPRESENTATION FOR THE YEAR ENDED 31 MARCH 2020**

We confirm that the following representations are made on the basis of enquiries of management and staff with relevant knowledge and experience and where appropriate, of inspection of supporting documentation, sufficient to satisfy ourselves that we can properly make each of the following representations to you in connection with your audit of the company's financial statements for the year ended 31 March 2020.

We acknowledge our legal responsibilities regarding disclosure of information to you as auditors and confirm that so far as we are aware, there is no relevant audit information needed by you in connection with preparing your audit report of which you are unaware. Each director has taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that you are aware of that information.

**Financial Statements:**

1. We acknowledge, and have fulfilled, as directors, our collective responsibility under the Companies Act 2006 for presenting financial statements (in accordance with the Companies Act 2006 and United Kingdom Accounting Standards), which give a true and fair view of the financial position of the company at the reporting date, and of its result for the period then ended, and for making accurate representations to you. We confirm that we have approved the financial statements for the year ended 31 March 2020.



2. We confirm that the accounting policies and estimation techniques adopted for the preparation of the financial statements are the most appropriate to the circumstances in which the company operates.
3. Other than as disclosed in the financial statements, the company has not entered into any transactions involving directors, officers or other related parties, which require disclosure under the Companies Act or Financial Reporting Standards. Appropriate disclosure has been made of the control of the company.
4. We have disclosed all known or possible litigation and claims whose effects should be considered when preparing the financial statements and these have been disclosed in accordance with the requirements of accounting standards.
5. The financial statements of the company have been prepared on the going concern basis as we believe that adequate cash resources will be available to cover the company's requirements for working capital and capital expenditure for at least the next twelve months. We are not aware of any other factors which could put into jeopardy the company's going concern status during or beyond this period.
6. There have been no events since the reporting date which necessitate revision of the figures included in the financial statements or inclusion of a note thereto. Should further material events occur, which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, we will advise you accordingly.
7. We confirm that we have considered the unadjusted errors advised to us by you as appended to this letter. It is our view that the cost of making these adjustments to the financial statements outweighs any benefits that will be gained by the users of the financial statements. The combined effect of the unadjusted errors is not material and we do not consider that their absence from the financial statements affects the true and fair view given.
8. We confirm that we have been notified that there were no adjustments made to the performance statements and balance sheet which we presented to you for audit.
9. We confirm we have no plans or intentions that may materially affect the carrying value or classification of any assets and liabilities reflected in the financial statements.
10. We confirm that after the audit report has been signed, we will circulate a copy of our annual report to every member of the company, every holder of the company's debentures and every other person entitled to receive notice of general meetings, as required by section 423, Companies Act 2006.

11. With regard to the defined benefit pension plan, we are satisfied that:
- the actuarial assumptions underlying the valuation are consistent with our knowledge of the plan and our business;
  - all significant retirement benefits have been identified and properly accounted for; and
  - all settlements and curtailments have been identified and properly accounted for.
12. We confirm the defined benefit pension liability at the year end was £4,920,000.
13. We confirm the following balances with Southend-on-Sea Borough Council are correct and the year end:
- amount owed by Southend-on-Sea Borough Council £778,043 excluding unpaid share capital;
  - amounts owed to Southend-on-Sea Borough Council £623,560; and
  - long term liabilities owed to Southend-on-Sea Borough Council £0.
14. We confirm that we are part of a group in the UK, headed by Southend-on-Sea Borough Council and that all UK group members follow IFRS.
15. We confirm that in the directors' opinion it is not appropriate to include the amenities bank accounts with a balance totalling £60,971 in the financial statements of Southend Care Ltd.

Information provided:

16. All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the company have been properly reflected and recorded in the accounting records. We have provided to you all other information requested and given unrestricted access to persons within the entity from whom you have deemed it necessary to speak to. All other records and relevant information, including minutes of all management and shareholders' meetings, have been made available to you.
17. Other than those disclosed in the financial statements we are not aware of any material liabilities, provisions, contingent liabilities, contingent assets or contracted for capital commitments, that need to be provided for or disclosed in the financial statements.
18. The company has satisfactory title to all assets and there are no liens or encumbrances on the company's assets.

19. We confirm that the functional currency of the company is Sterling.
20. We confirm that we have notified you of all related party relationships, and transactions that the company has entered into with those related parties during the year of which we are aware.
21. We acknowledge our responsibility for the design and implementation of internal controls to prevent and detect errors or fraud, and have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud. We are unaware of any irregularities, including fraud and suspected fraud, involving management, employees or others who have significant roles in internal control, or those employed by the company where the fraud could have a material effect on the financial statements. No allegations of such irregularities or breaches have come to our notice.
22. We are unaware of any breaches or possible breaches of statute, regulations, contracts, agreements or the company's Memorandum and Articles of Association which might result in the company suffering significant penalties or other loss. No allegations of such irregularities or breaches have come to our notice.
23. We confirm that we have been notified by you that there are no matters which you are required to raise with us to comply with your profession's ethical guidance which are in addition to the matters included in your assignment terms letter to us.
24. We confirm that we wish to take advantage of the small company filing exemptions under section 444 of the Companies Act.
25. We confirm that we have been notified by you that there are no matters which you are required to raise with us to comply with your profession's ethical guidance which are in addition to the matters included in your assignment terms letter.
26. We confirm receipt of your assignment terms letter and we confirm receipt of your management letter.
27. We can confirm that we consider the trade debtors at the year end of £67,644 to be recoverable and that no provision for bad debts is required.

Yours faithfully

Signed on behalf of the Board of Directors (those charged with governance)

**SOUTHEND CARE LTD****Unadjusted errors within Company Financial Statements****Year ended 31 March 2020**

	Balance Sheet			I & E	
	Dr	Cr		Dr	Cr
Other debtors	5,750				
Other creditors		5,750			

**Being the reclassification of prepayments within creditors to debtors.**

5,750	5,750	-	-
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**Effect on company retained profit**

0
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	Balance Sheet			I & E	
	Dr	Cr		Dr	Cr
Bank	60,971				
Other Creditors		60,971			

**Being the inclusion of the Amenity accounts.**

60,971	60,971	-	-
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**Effect on company retained profit**

0
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	Balance Sheet			I & E	
	Dr	Cr		Dr	Cr
Accruals – creditors payable to others	11,069				
Staff costs – direct employee salaries					11,069

**Being the reduction in holiday pay accrual based on client workings.**

11,069	-	-	11,069
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**Effect on company retained profit**

11,069
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