

REPORT TO THE BOARD OF DIRECTORS OF

Southend Care Ltd

**Audit of the Financial Statements
For the Year Ended 31 March 2021**





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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 2021.
- 1.2 The scope of our work was set out in our Assignment Terms Letter issued in April 2021.
- 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

- 2.1.2 After excluding the IAS19 adjustments for the defined contribution pension liability, Southend Care Ltd's financial performance in 2020/21 shows a profit for the year of £693,032 compared to a profit in 2019/20 of £325,298.
- 2.1.3 The impact of the adjustment for the IAS19 defined benefit pension scheme charge of £301,000 has resulted in a surplus of £392,032.

2.2 INCOME

- 2.2.1 Revenue for the year totalled £8,836,876 (2020: £7,955,018).
- 2.2.2 Block funding income totalled £8,070,961 for the year ended 31 March 2021 (2020: £7,693,435).
- 2.2.3 Covid related grants received during the year totalled £545,271.
- 2.2.4 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 £8,143,844 for the year ended 31 March 2021 (2020: £7,638,200).

2.3.2 Staff costs totalled £7,146,432 this is broken down as follows:

	2021	2020
	£	£
Wages	5,949,945	5,214,433
Employer's NI	458,393	388,559
Employer's pension	545,780	580,103
Recruitment	20,066	53,292
Training	7,973	15,064
Insurance	10,185	10,320
Agency	154,090	467,975
Total	<u>£ 7,146,432</u>	<u>£ 6,729,746</u>

2.3.3 Administrative expenses totalled £997,412 for the year ended 31 March 2021 (2020 : £893,227), this is broken down as follows:

	2021	2020
	£	£
Premises costs	189,917	209,435
Transport costs	42,104	44,269
Supplies and services	614,306	487,082
Third party payments	36,406	17,408
Irrecoverable VAT	114,679	135,033
Total	<u>£ 997,412</u>	<u>£ 893,227</u>



3. Financial Position – Balance Sheet

3.1 CASH AT BANK

3.1.1 Cash at bank has increased by £1,231,705 to £1,709,169 (2020: £477,464), however this does include £250,000 of deferred income received from Southend Borough Council to be expended in the years ended 31 March 2022 and 2023.

3.2 PENSION SCHEME DEFICIT

3.2.1 For the year ended 31 March 2021 the pension scheme deficit has increased by £2.545m leaving a pension scheme deficit at 31 March 2021 of £7.465m. The assumptions used by the actuary are as follows:

	31 March 2021	31 March 2020
Rate of increase in salaries	3.85%	2.85%
Rate of increase in pensions	2.85%	1.85%
Discount rate	2.00%	2.35%

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 2020 £
Debtor	679,908	778,143
Short term creditor	888,660	623,566
Long term creditor	125,000	-



4. Going Concern

4.1 GOING CONCERN REVIEW

- 4.1.2 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 2021.



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 2021 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 2021 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 increased by £2.545m in the year ended 31 March 2021 to £7.465 million. There are a number of factors that have resulted in this increase, but the most significant changes are:
- The rate of increase in salaries has risen from 2.85% in 2020 to 3.85% in 2021. The impact of this change has increased the liability by £840,000.
 - The rate of increase in pensions has also risen from 1.85% in 2020 to 2.85% in 2021. The impact of this change is to increase the liability by £3,182,000.



5. Pension Scheme Deficit (Continued)

- The discount rate has fallen from 2.35% to 2.00%. 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 0.35% change in discount rate is estimated to be around £1,837,000 increase in the net liability.
- The life expectancies across four categories (based on gender and time until retirement) have reduced. 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 £190,000.
- To partly offset the increase in liabilities noted above, the schemes assets have significantly outperformed the expectation of the actuary in the previous year. Whilst they had anticipated a further 5% contraction in the scheme assets there was actually a 28% improvement in performance. This results in an actuarial gain on assets of £3,273,00 at the year end.

6. Outstanding audit issues

- 6.1.1 As a result of ongoing 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 We are pleased to note that carrying out the work remotely for a second year has been more straightforward but we do still have the following work outstanding:
- Receipt of trade debtor balance selected in our sample
 - Sample verification of average staff numbers provided



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>Personnel Files</p> <p>During our testing the Human Resources Department could not locate all necessary personnel ID documentation. We also found the COVID pay award was not communicated to the employees via written communication. This extra pay was briefed to these employees during a team meeting.</p>	<p>It is a legal requirement to retain certain employment related documents for all of your current employees.</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. Any additional pay awards should be communicated via written forms of communication.</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>Credit Control</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 As a reminder, a dispensation has been obtained 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 This dispensation was granted to cover the year ended 31 March 2019 and will remain in place for five years. The activity levels within the company during the year ended 31 March 2021 do not jeopardise the dispensation in place as the income is still dominated by activity with the Local Authority parent.
- 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 were to increase considerably the company would need to notify HMRC of the change of circumstances.

7.3 AMENITIES ACCOUNTS

- 7.3.1 As noted in previous years, 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 £51,402.



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

7.3.3 We had anticipated that these accounts would be included on the balance sheet this year, but they are still excluded and they therefore appear within our unadjusted items list attached to our Letter of Representation. 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 2020/21 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: 27 May 2021

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