



**Sefton Metropolitan
Borough Council**

Audit planning report

Year ended 31 March 2021

Novemeber 2021



Private and Confidential

22 November 2021

The Members of the Audit and Governance Committee
Sefton Metropolitan Borough Council
Magdalen House
30 Trinity Road
Bootle
L20 3NJ

Dear Audit and Governance Committee Members

Audit planning report

We are pleased to attach our Audit planning report which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Audit and Governance Committee with a basis to review our proposed audit approach and scope for the 2020/21 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2020 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

This plan summarises our initial assessment of the key risks driving the development of an effective audit for the Council, and outlines our planned audit strategy in response to those risks. Our planning procedures remain ongoing; we will inform the Audit and Governance Committee if there any significant changes or revisions once we have completed these procedures.

This report is intended solely for the information and use of the Audit and Governance Committee and management, and is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss this report with you on as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Hassan Rohimun

For and on behalf of Ernst & Young LLP

Contents



Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (<https://www.psa.co.uk/audit-quality/statement-of-responsibilities/>). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The "Terms of Appointment and further guidance (updated April 2018)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Audit and Governance Committee and management of Sefton Metropolitan Borough Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit and Governance Committee and management of Sefton Metropolitan Borough Council 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 and Governance Committee and management of Sefton Metropolitan Borough Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



01

Overview of our 2019/20 audit strategy



Overview of our 2020/21 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit and Governance Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Misstatements due to fraud or error	Fraud risk	No change in risk or focus	As identified in ISA 240, management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively.
Risk of fraud in revenue and expenditure recognition	Fraud risk	No change in risk or focus	Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition. We consider that the risk manifests in year end revenue and expenditure subject to manipulation, specifically estimates for accruals of income and expenditure, provisions and pensions which affect the balance sheet and the income statement. Section 2, 'audit risks' sets out our consideration of where this risk manifests in more detail.
Valuation of pension liabilities	Significant risk	No change in risk or focus	The accounting entries relating to the Local Government Pension Schemes are underpinned by significant assumptions and estimates, which increases the risk of misstatement and error. We will assess the assumptions and the valuation of scheme assets used by the actuary in determining the IAS 19 accounting transactions.
Valuation of land and buildings	Significant risk	No change in risk or focus	The Council re-values assets to reflect the valuation position at year end. The valuation process is based on professional estimation techniques, which increases the risk of misstatement and error. In the prior year we reported an error which was below our materiality threshold, as a result this year we will engage our valuation experts to assess the valuation basis for the Council's asset base and review the indexation rates used. We will also consider engaging our valuation experts to review the valuation of investment properties.
New central government grants and other Covid-19 funding streams	Significant risk	New area of focus	The Authority received a series of grants from the UK government during 202/21 in support for the pandemic crisis management. We identified the accounting treatment of those grants as an significant risk due to factors discussed in Section 02.

Overview of our 2020/21 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit and Governance Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Audit risks and areas of focus

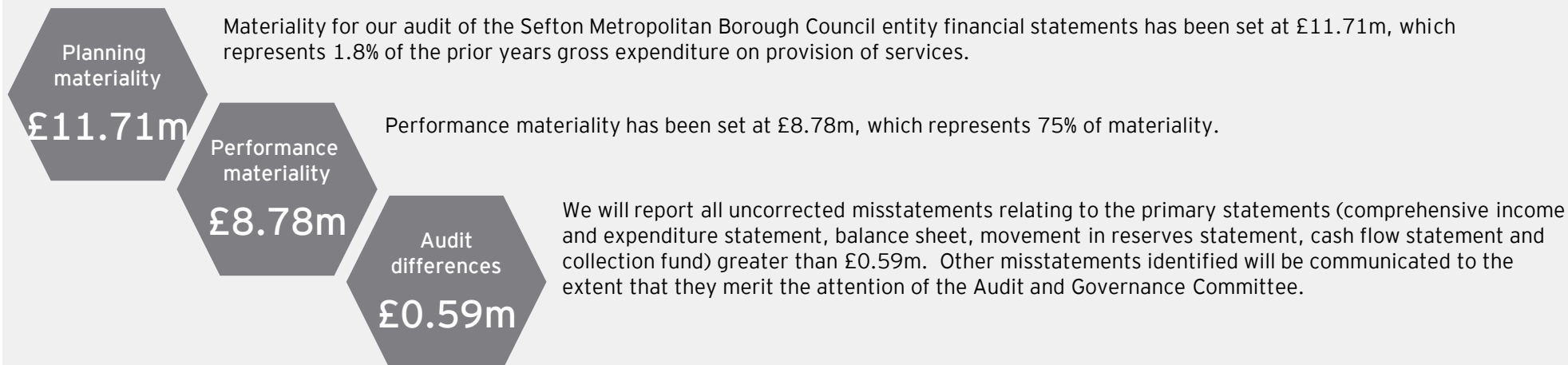
Risk / area of focus	Risk identified	Change from PY	Details
Investments and subsidiaries	Inherent risk	No change in risk or focus	<p>The Council have a material wholly owned subsidiary and therefore produce group accounts as well as Council entity accounts. Our audit opinion is therefore required to cover the group as well as the entity financial statements and notes.</p> <p>This year, based on planning procedures, Sefton New Directions Limited is deemed to be material to the group. The Council also have other subsidiaries and joint working arrangements that require management judgement for disclosure and consolidation.</p>
Going Concern	Inherent risk	No change in risk or focus	<p>This auditing standard has been revised in response to enforcement cases and well-publicised corporate failures where the auditor's report failed to highlight concerns about the prospects of entities which collapsed shortly after.</p>

Auditing accounting estimates

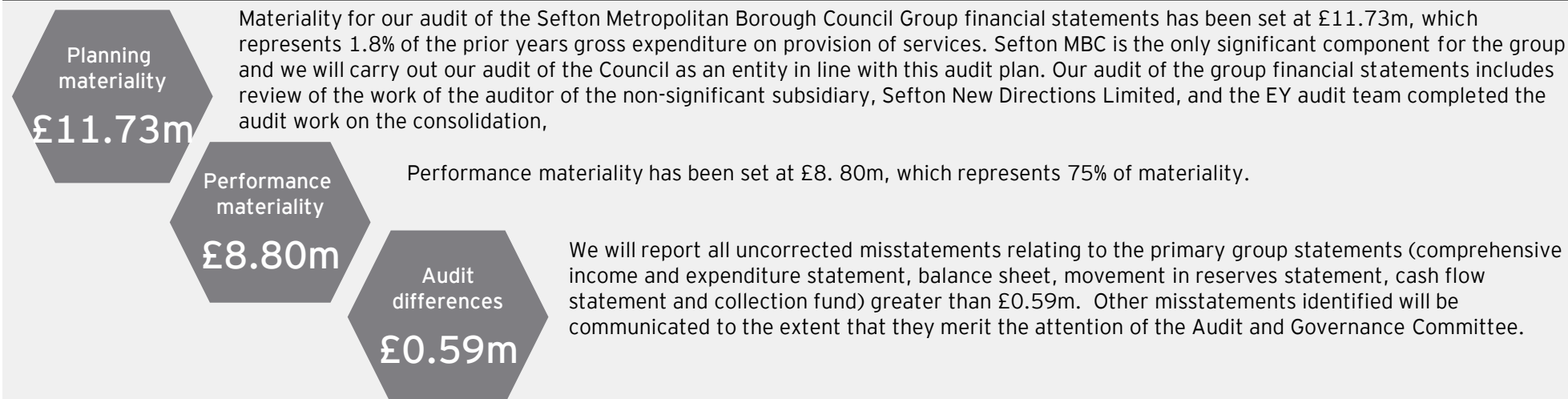
In addition to the above risks and areas of focus, a revised auditing standard has been issued in respect of the audit of accounting estimates. The revised standard requires auditors to consider inherent risks associated with the production of accounting estimates. These could relate, for example, to the complexity of the method applied, subjectivity in the choice of data or assumptions or a high degree of estimation uncertainty. As part of this, auditors now consider risk on a spectrum (from low to high inherent risk) rather than a simplified classification of whether there is a significant risk or not. At the same time, we may see the number of significant risks we report in respect of accounting estimates to increase as a result of the revised guidance in this area. The changes to the standard may affect the nature and extent of information that we may request and will likely increase the level of audit work required.

Overview of our 2020/21 audit strategy

Materiality



Group Materiality



Overview of our 2020/21 audit strategy

Audit scope

This Audit Plan covers the work that we plan to perform to provide you with:

- Our audit opinion on whether the financial statements of Sefton Metropolitan Borough Council give a true and fair view of the financial position as at 31 March 2021 and of the income and expenditure for the year then ended; and
- Our conclusion on the Council's arrangements to secure economy, efficiency and effectiveness.

We will also review and report to the National Audit Office (NAO), to the extent and in the form required by them, on the Council's Whole of Government Accounts return.

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

When planning the audit we take into account several key inputs:

- Strategic, operational and financial risks relevant to the financial statements;
- Developments in financial reporting and auditing standards;
- The quality of systems and processes;
- Changes in the business and regulatory environment; and,
- Management's views on all of the above.

By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to the Council.

Taking the above into account, and as articulated in this audit plan, our professional responsibilities require us to independently assess the risks associated with providing an audit opinion and undertake appropriate procedures in response to that. Our Terms of Appointment with PSAA allow them to vary the fee dependent on "the auditors assessment of risk and the work needed to meet their professional responsibilities". PSAA are aware that the setting of scale fees has not kept pace with the changing requirements of external audit with increased focus on, for example, the valuations of land and buildings, the auditing of groups, the valuation of pension obligations, the introduction of new accounting standards such as IFRS 9 and 15 in recent years as well as the expansion of factors impacting the value for money conclusion. Therefore to the extent any of these or any other risks are relevant in the context of Sefton Metropolitan Borough Council's audit, we will discuss these with management as to the impact on the scale fee.



02

Audit risks



Audit risks

Our response to significant risks

We have set out the significant risks (including fraud risks denoted by*) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

Misstatements due to fraud or error*

What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We respond to this fraud risk on every audit engagement.

We have not identified any specific fraud risks in our planning, however we will continue to update our risk assessment throughout our audit.

What will we do?

We recognise the risk of misstatements due to fraud or error as potentially occurring in income and expenditure recognition, including related estimates and judgements, or in material and significant accounting estimates relating to pensions, as identified in our significant risks.

Our audit methodology include the following general procedures which addresses the presumed risk:

- ▶ Identifying fraud risks during the planning stages.
- ▶ Inquiry of management about risks of fraud and the controls put in place to address those risks.
- ▶ Understanding the oversight given by those charged with governance of management's processes over fraud.
- ▶ Consideration of the effectiveness of management's controls designed to address the risk of fraud.
- ▶ Determining an appropriate strategy to address those identified risks of fraud.
- ▶ Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements
- ▶ Assessing accounting estimates for evidence of management bias.
- ▶ Evaluating the business rationale for significant unusual transactions.

Our response to significant risks (continued)

Risk of fraud in revenue and expenditure recognition*

Financial statement impact

Misstatements that occur in relation to the risk of fraud in revenue and expenditure recognition could affect the income and expenditure accounts and the surplus or deficit recorded at the year end.

The highest misstatement risks relating to estimates and judgements at the year end have a balance sheet and I&E impact as the debtor/income and creditor/expenditure accounts are adjusted by the same amounts.

What is the risk?

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

Due to the nature and value of income which comprises of Government Grants, income from Council Tax and Business Rates, it is our view is that the risk is not significant in this area, but is relevant to other income and operating expenditure that is subject to manipulation at year end.

We consider that the risk impacts on the following account balances:

- Calculation of estimates (being pensions estimates, accruals and provisions) which impact on the completeness and valuation assertions.
- Manual income accruals which impacts on the existence and valuation assertions.
- Operating expenditure transactions around the year end which impacts on both the occurrence and completeness assertions.
- Improper capitalisation of revenue expenditure in order to reduce the impact on the general fund.

What will we do?

We will carry out substantive procedures in response to this risk. The procedures designed to address the identified risk are set out below:

- Document our understanding of the processes and controls in place to mitigate the risks.
- Identify and walk through those processes and controls, confirming our understanding.
- Review income and expenditure recognition policies and confirm consistency of application through performance of testing
- Identify significant accounting estimates for revenue and expenditure, discussing assumptions and calculation methodology with management
- Test the identified significant accounting estimates to confirm appropriateness and consistency with supporting records considering evidence of bias
- Sample test material revenue (other income) and operating expenditure streams with a focus on assets and liabilities at the year-end
- Testing of revenue cut-off at the period end date
- Conduct testing to identify unrecorded liabilities at the year-end
- Testing a sample of Property Plant and Equipment additions to confirm that the expenditure has been appropriately capitalised

Testing of revenue and expenditure will be supported through the use of data analytics tools to support sample selection. The data analysis tools enable the full population of other income and operating expenditure to be included within the sample population. The population will be filtered to enable testing to focus on higher risk areas, high value and unusual transactions.

Audit risks

Our response to significant risks (continued)

Valuation of pension liabilities

Financial statement impact

Significant material figures are included in the financial statements in relation to the LGPS, which are subject to estimation, judgement and external expert advice.

What is the risk?

The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2021 this totalled £471 million.

The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the Merseyside Pension Scheme.

Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

We consider that this risk is associated to the following specific areas:

- ▶ Incorrect estimation of liabilities of the fund
- ▶ Incorrect estimation of the asset balances of the pension fund allocated to the Council
- ▶ Improper application of the pension estimate adjustments to the year end financial statements.

What will we do?

We will:

- ▶ Liaise with the auditors of the Pension Fund, to obtain assurances over the information supplied to the actuary in relation to the Council;
- ▶ Assess the work of the Pension Fund actuary, including the assumptions they have used, by relying on the work of PwC - Consulting Actuaries commissioned by the National Audit Office for all Local Government sector auditors, and considering any relevant reviews by our EY actuarial team;
- ▶ Test the variation in the pension fund assets used by the actuary in reporting to the Council against the actual year end asset valuation,
- ▶ Consider the basis for the actuary valuation of the assets in their report to the Council, and
- ▶ Review and test the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.

Our response to significant risks (continued)

<p>Valuation of land and buildings</p>	<p>What is the risk?</p> <p>The fair value of land & building and Investment Properties (IP) represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges.</p> <p>Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet, including the use of work from valuation experts.</p>	<p>What will we do?</p> <p>We will carry out the following substantive procedures in response to this risk:</p> <ul style="list-style-type: none"> ▶ Consider the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work; ▶ Sample test key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre); ▶ Consider the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE and annually for investment property; ▶ Review assets not subject to valuation in 2020/21 to confirm that the remaining asset base has been subject to impairment review; ▶ Consider changes to useful economic lives as a result of the most recent valuation; and ▶ Test that accounting entries have been correctly processed in the financial statements. <p>As part of our approach we will consider the need to engage internal EY valuation experts to appraise the approach and assumptions used by the Council's valuer, particularly in relation to investment or market rent properties, such as the Council's investment in the Strand.</p>
<p>Financial statement impact</p> <p>Misstatements that occur in relation to the valuation of property and investment properties could affect the balance sheet by materially misstating the valuation of these assets; and the income and expenditure account via the impact on depreciation charges.</p>		

Audit risks

Our response to significant risks (continued)

New central government grants and other Covid-19 funding streams

Financial statement impact

We have identified a risk of covid-19 Government grant income misstatement that could affect the Income and Expenditure accounts.

We consider the risk applies to the classification of Government grant income and could result in a misstatement of 'Cost of Services' reported in the 'Comprehensive Income and Expenditure' statement and Balance Sheet.

What is the risk?

The Council has received a significant level of government funding in relation to Covid-19. In 2020/21, this consists of non-ringfenced and ring fenced Covid-19 response grants.

Whilst there is no change in the CIPFA Code or Accounting Standard (IFRS 15) in respect of accounting for government grant funding, the emergency nature of some of the grants received and in some cases the lack of clarity on any associated restrictions and conditions, means that the Council will need to apply a greater degree of assessment and judgement to determine the appropriate accounting treatment within the 2020/21 statements.

What will we do?

In order to address this risk we will carry out a range of procedures including:

- ▶ Reviewing managements assessment of accounting treatment for Covid-19 grants and comparing this to data collected from other Councils in a benchmarking exercise. This will provide a risk assessment and identify where testing should be focused.
- ▶ Sample testing Government Grant income to ensure that they have been correctly classified as specific or non-specific in nature;
- ▶ Sample testing Government Grant income to ensure that they have been correctly classified in the financial statements based on any restrictions imposed by the funding body; and
- ▶ Reconciliation of those primary statement balances to the detailed notes within the statement of accounts to ensure appropriate presentation of grant income and consistency.

We will encourage the finance team to provide its assessment of grant accounting before it prepares the statements so that we can provide an early view on its proposed accounting treatment.

Audit risks

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

What is the risk/area of focus?	What will we do?
<p><u>Investments and subsidiaries</u></p> <p>The Council have a material wholly owned subsidiary and therefore produce group accounts as well as Council entity accounts. Our audit opinion is required to cover the group as well as the entity financial statements and notes.</p> <p>The Council also have other subsidiaries and joint working arrangements that require management judgement.</p> <p>Judgements are required covering:</p> <ul style="list-style-type: none">• Composition of the group accounts;• disclosure requirements for subsidiaries included and excluded from the group accounts;• Application of group accounting policies to the activity of subsidiaries; and• The application of consolidation and elimination adjustments.	<p>We will take a substantive approach to the audit of the group accounts and in relation to the risks arising from the Council's involvement with subsidiaries and joint ventures.</p> <p>This year, based on planning procedures, Sefton New Directions Limited is deemed to be material to the group. In addition to our audit of Sefton Metropolitan Borough Council as the significant entity in the group, we will:</p> <ul style="list-style-type: none">• Assess management's judgements on components included in the group accounts, and the evidence supporting these decisions;• Issue group instructions to the auditor of Sefton New Directions Limited (Hazlewoods LLP), including our assessment of risks at the group level and application of materiality to the subsidiary;• Review the work of the subsidiary auditor where this relates to a significant risk for the group;• Test the consolidation and elimination adjustments applied to the group accounts; and• Review the application of group accounting policies across the group entities for consistency.

Audit risks

Other areas of audit focus (continued)

What is the risk/area of focus?

Going Concern Compliance with ISA 570

There is a presumption that the Council will continue as a going concern for the foreseeable future. However, the Council is required to carry out a going concern assessment that is proportionate to the risks it faces. In light of the continued impact of Covid-19 on the Council's day to day finances, its annual budget, its cashflow and its medium term financial strategy, there is a need for the Council to ensure its going concern assessment is thorough and appropriately comprehensive.

The Council is then required to ensure that its going concern disclosure within the statement of accounts adequately reflects its going concern assessment and in particular highlights any uncertainties it has identified.

In addition, the auditing standard in relation to going concern (ISA570) has been revised with effect for the 2020/21 accounts audit.

What will we do?

We will meet the requirements of the revised auditing standard on going concern (ISA 570) and consider the adequacy of the Council's going concern assessment and its disclosure in the accounts by:

- ▶ Challenging management's identification of events or conditions impacting going concern;
- ▶ Testing management's resulting assessment of going concern by evaluating supporting evidence (including consideration of the risk of management bias);
- ▶ Reviewing the Council's cashflow forecast covering the foreseeable future, to ensure that it has sufficient liquidity to continue to operate as a going concern;
- ▶ Undertaking a 'stand back' review to consider all of the evidence obtained, whether corroborative or contradictory, when we draw our conclusions on going concern;
- ▶ Challenging the disclosure made in the accounts in respect of going concern and any material uncertainties;



03

Value for Money Risks





Value for money

The Council's responsibilities for value for money

The Council is required to maintain an effective system of internal control that supports the achievement of its policies, aims and objectives while safeguarding and securing value for money from the public funds and other resources at its disposal.

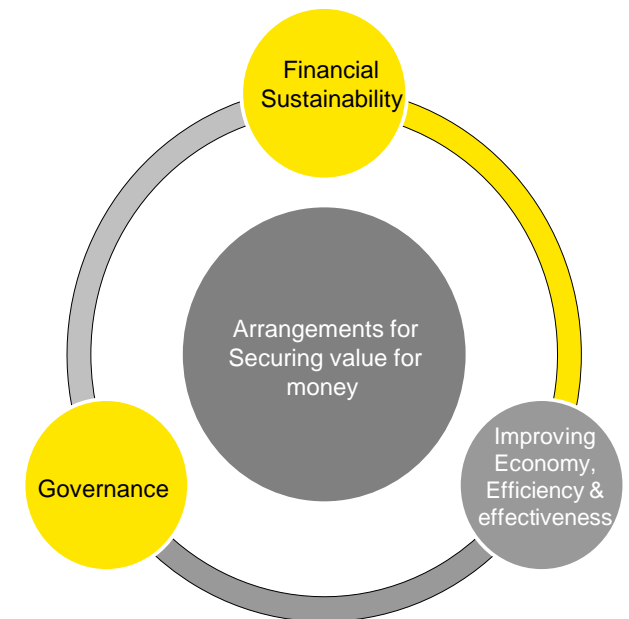
As part of the material published with its financial statements, the Council is required to bring together commentary on its governance framework and how this has operated during the period in a governance statement. In preparing its governance statement, the Council tailor's the content to reflect its own individual circumstances, consistent with the requirements of the relevant accounting and reporting framework and having regard to any guidance issued in support of that framework. This includes a requirement to provide commentary on its arrangements for securing value for money from their use of resources.

Auditor responsibilities under the new Code

Under the 2020 Code we are still required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. However, there is no longer overall evaluation criterion which we need to conclude on. Instead the 2020 Code requires the auditor to design their work to provide them with sufficient assurance to enable them to report to the Council a commentary against specified reporting criteria (see below) on the arrangements the Council has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The specified reporting criteria are:

- **Financial sustainability**
How the Council plans and manages its resources to ensure it can continue to deliver its services;
- **Governance**
How the Council ensures that it makes informed decisions and properly manages its risks; and
- **Improving economy, efficiency and effectiveness**
How the Council uses information about its costs and performance to improve the way it manages and delivers its services.





Value for money

Planning and identifying VFM risks

The NAO's guidance notes require us to carry out a risk assessment which gathers sufficient evidence to enable us to document our evaluation of the Council's arrangements, in order to enable us to draft a commentary under the three reporting criteria. This includes identifying and reporting on any significant weaknesses in those arrangements and making appropriate recommendations. This is a change to 2015 Code guidance notes where the NAO required auditors as part of planning, to consider the risk of reaching an incorrect conclusion in relation to the overall criterion.

In considering the Council's arrangements, we are required to consider:

- The Council's governance statement
- Evidence that the Council's arrangements were in place during the reporting period;
- Evidence obtained from our work on the accounts;
- The work of inspectorates (such as OfSTED) and other bodies and
- Any other evidence source that we regard as necessary to facilitate the performance of our statutory duties.

We then consider whether there is evidence to suggest that there are significant weaknesses in arrangements. The NAO's guidance is clear that the assessment of what constitutes a significant weakness and the amount of additional audit work required to adequately respond to the risk of a significant weakness in arrangements is a matter of professional judgement. However, the NAO states that a weakness may be said to be significant if it:

- Exposes - or could reasonably be expected to expose - the Council to significant financial loss or risk;
- Leads to - or could reasonably be expected to lead to - significant impact on the quality or effectiveness of service or on the Council's reputation;
- Leads to - or could reasonably be expected to lead to - unlawful actions; or
- Identifies a failure to take action to address a previously identified significant weakness, such as failure to implement or achieve planned progress on action/improvement plans.

We should also be informed by a consideration of:

- The magnitude of the issue in relation to the size of the Council;
- Financial consequences in comparison to, for example, levels of income or expenditure, levels of reserves, or impact on budgets or cashflow forecasts;
- The impact of the weakness on the Council's reported performance;
- Whether the issue has been identified by the Council's own internal arrangements and what corrective action has been taken or planned;
- Whether any legal judgements have been made including judicial review;
- Whether there has been any intervention by a regulator or Secretary of State;
- Whether the weakness could be considered significant when assessed against the nature, visibility or sensitivity of the issue;
- The impact on delivery of services to local taxpayers; and
- The length of time the Council has had to respond to the issue.



Value for money

Responding to identified risks

Where our planning work has identified a risk of significant weakness, the NAO's guidance requires us to consider what additional evidence is needed to determine whether there is a significant weakness in arrangements and undertake additional procedures as necessary, including where appropriate, challenge of management's assumptions. We are required to report our planned procedures to the Audit and Accounts Committee.

Reporting on VFM

In addition to the commentary on arrangements, where we are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources, the 2020 Code has the same requirement as the 2015 Code in that we should refer to this by exception in the Audit Report on the financial statements.

However, a new requirement under the 2020 Code is for us to include the commentary on arrangements in a new Auditor's Annual Report. The 2020 Code states that the commentary should be clear, readily understandable and highlight any issues we wish to draw to the Council's attention or the wider public. This should include details of any recommendations arising from the audit and follow-up of recommendations issued previously, along with our view as to whether they have been implemented satisfactorily.

Status of our 2020/21 VFM planning

Our risk assessment has resulted in the identification of the significant risks noted on the following page which we view as relevant to our value for money conclusion.



Value for Money Risks

What is the significant value for money risk?

Maintaining Financial sustainability

The Council are operating in a continued environment of financial challenge and savings requirements across the sector, with pressure from Children’s Social Care, Children with Disabilities, Home to School Transport and Locality Services.

As such, the identification and realisation of savings in the Medium Term Financial Plan remain critical to maintaining the level of reserves and financial sustainability.

The Council did identify underspending in other areas as well as implementing various mitigating actions during the year to ensure there would be no overspend, particularly in light of the financial pressures due to COVID19. These measures enabled the outturn position to be a net underspend of £2.794m.

What arrangements does the risk affect?

Financial Sustainability

What will we do?

Our approach will focus on the arrangements that the Council has in place to plan for, monitor and report on financial resilience in the medium term and the impact of the 2020/21 outturn position.

Our procedures will include:

- ▶ Reviewing the actions which the Council is undertaking to ensure there is a sustainable position as part of setting the Medium Term Financial Strategy
- ▶ Considering current financial standing and the availability of reserves to fund future expenditure
- ▶ Considering the 2020/21 outturn performance against budget, the proportion of recurrent and non recurrent savings achieved in the year, actions taken to support the forecast deficit and the impact on the current MTFS
- ▶ Considering the appropriateness of assumptions used by the Council in setting the budget and Medium Term Financial Strategy.

Value for Money Risks

What is the significant value for money risk?	What arrangements does the risk affect?	What will we do?
<p>Follow-up on DFE Improvement</p> <p>An Improvement Notice was issued to Sefton Council on 14 June 2019 following an assessment that the local area had failed to make sufficient progress against five areas of weakness in its SEND service provision. This was detailed in an Ofsted and Care Quality Commission (CQC) SEND Revisit report. In our prior year (PY) VFM review, it was identified that the Council had established a plan to tackle the required areas for improvement, with quarterly monitoring and tracking of the areas of weakness.</p> <p>With regards to Children’s Mental Health (MH), in September 2019, Ofsted, CQC, Her Majesty’s Inspectorate of Constabulary & Fire & Rescue Services, (HMICFRS) and Probation (HMIP) carried out a joint inspection of the multi-agency response to abuse and neglect in Sefton. This inspection included a ‘deep dive’ on the response to children’s MH. In the PY, the Council produced a written Statement of Action which it submitted to OFSTED and the relevant parties, and in April 2020 this action plan was reviewed and approved by Ofsted and the others, noting it demonstrated an accurate understanding of the areas of priority action and findings of the joint inspection team.</p> <p>Furthermore, during VFM planning, it was identified that two reviews had been performed by Ofsted during 2020-21, looking at both Adult & Community Learning, and Children’s Services at the Council.</p>	<p>Improving Economy, Efficiency & Effectiveness</p> <p>Governance</p>	<p>Our approach will focus on reviewing Ofsted reports to identify any findings, and their impact on the VFM conclusion for 2020-21.</p>



04

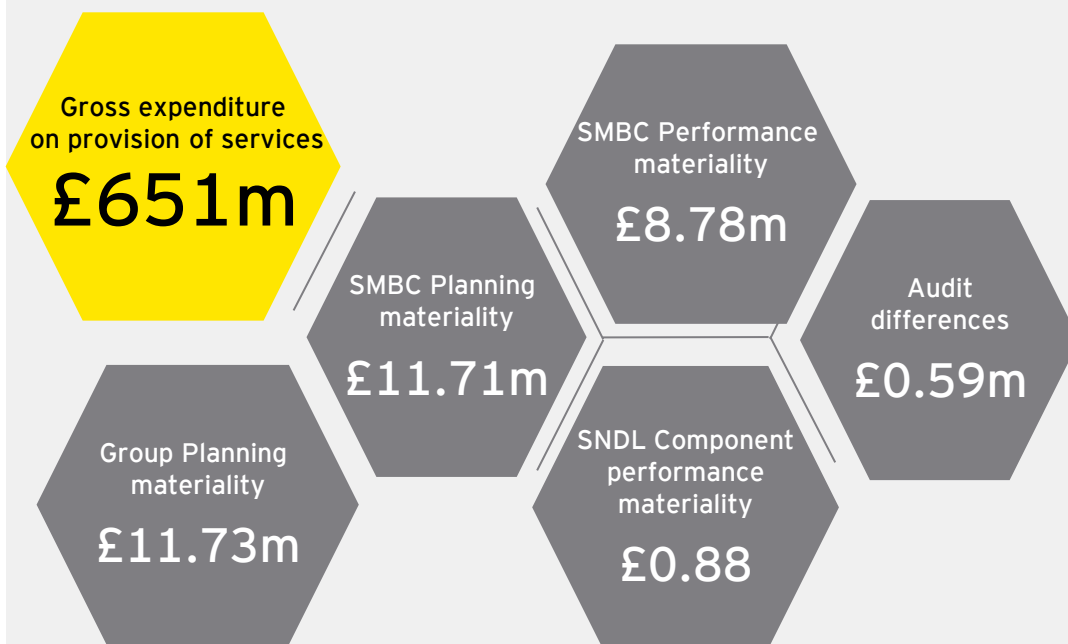
Audit materiality



Materiality

Materiality

Materiality for 2020/21 has been set at £11.71m for our audit of the Council. This represents around 1.8% of the Council's gross expenditure on provision of services. It will be reassessed throughout the audit process. We have also set our planning materiality for the group accounts and communicated the SNDL component performance materiality to the component auditor.



We request that the Audit and Governance Committee confirm its understanding of, and agreement to, these materiality and reporting levels.

Key definitions

Planning materiality - the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements. We have set Group planning materiality at £11.73m and entity materiality at £11.471m.

Performance materiality - the amount we use to determine the extent of our audit procedures. We have set performance materiality at £8.78m which represents 75% of planning materiality.

Component performance materiality range - we determine component performance materiality as a percentage of Group performance materiality based on risk and relative size to the Group.

Audit difference threshold - we propose that misstatements identified below this threshold are deemed clearly trivial. The same threshold for misstatements is used for component reporting. We will report to you all uncorrected misstatements over this amount relating to the comprehensive income and expenditure statement, balance sheet and collection fund that have an effect on income or that relate to other comprehensive income.

Other uncorrected misstatements, such as reclassifications and misstatements in the cashflow statement and movement in reserves statement or disclosures, and corrected misstatements will be communicated to the extent that they merit the attention of the Audit and Governance Committee, or are important from a qualitative perspective.

Specific materiality - We have set a materiality of £1k for remuneration disclosures, related party transactions, members' allowances, audit fees and exit packages which reflects our understanding that an amount less than our materiality would influence the economic decisions of users of the financial statements in relation to these areas.



05

Scope of our audit



Our Audit Process and Strategy

Objective and Scope of our Audit scoping

Under the Code of Audit Practice our principal objectives are to review and report on the Council's financial statements and arrangements for securing economy, efficiency and effectiveness in its use of resources to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers:

1. Financial statement audit

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK).

We also perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

Procedures required by standards

- Addressing the risk of fraud and error;
- Significant disclosures included in the financial statements;
- Entity-wide controls;
- Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements; and
- Auditor independence.

Procedures required by the Code

- Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance Statement; and
- Reviewing and reporting on the Whole of Government Accounts return, in line with the instructions issued by the NAO

2. Arrangements for securing economy, efficiency and effectiveness (value for money)

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources.

Our Audit Process and Strategy (continued)

Audit Process Overview

Our audit involves:

- ▶ Identifying and understanding the key processes and internal controls; and
- ▶ Substantive tests of detail of transactions and amounts.

For 2019/20 we plan to follow a substantive approach to the audit as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.

Analytics:

We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular journal entries. These tools:

- ▶ Help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests; and
- ▶ Give greater likelihood of identifying errors than random sampling techniques.

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Audit and Governance Committee.

Internal audit:

We will regularly meet with the Head of Internal Audit, and review internal audit plans and the results of their work. We will reflect the findings from these reports, together with reports from any other work completed in the year, in our detailed audit plan, where they raise issues that could have an impact on the financial statements.

Scope of our audit

Scoping the group audit

Group scoping

Our audit strategy for performing an audit of an entity with multiple locations is risk based. We identify components as:

- 1. Significant components:** A component is significant when it is likely to include risks of material misstatement of the group financial statements, either because of its relative financial size to the group (quantitative criteria), or because of its specific nature or circumstances (qualitative criteria). We generally assign significant components a full or specific scope given their importance to the financial statements. We consider Sefton Metropolitan Borough Council as an entity a significant component for the Group accounts.
- 2. Not significant components:** The number of additional components and extent of procedures performed depended primarily on: evidence from significant components, the effectiveness of group wide controls and the results of analytical procedures.

For all other components we perform other procedures to confirm that there is no risk of material misstatement within those locations. These procedures are detailed below. There is no longer a concept of 'out of scope' and we therefore design 'other procedures' over these locations that address the risk of material misstatement.

Scoping by Entity

Our preliminary audit scopes by number of locations we have adopted are set out below. We provide scope details for each component within Appendix E.

2	A	Full scope audits
0	B	Specific scope audits
0	C	Review scope audits
0	D	Specified procedures
0	E	Other procedures

Scope definitions

Full scope: locations where a full audit is performed to the materiality levels assigned by the Group audit team for purposes of the consolidated audit. Procedures performed at full scope locations support an interoffice conclusion on the reporting package. These may not be sufficient to issue a stand-alone audit opinion on the local statutory financial statements because of the materiality used and any additional procedures required to comply with local laws and regulations. The group accounts include Sefton New Directions Limited. We will engage with component auditor to perform full scope audit.

Specific scope: locations where the audit is limited to specific accounts or disclosures identified by the Group audit team based on the size and/or risk profile of those accounts.

Review scope: locations where procedures primarily consist of analytical procedures and inquiries of management. On-site or desk top reviews may be performed, according to our assessment of risk.

Specified Procedures: locations where the component team performs procedures specified by the Group audit team in order to respond to a risk identified.

Other procedures: For those locations that we do not consider material to the Group financial statements in terms of size relative to the Group and risk, we perform other procedures to confirm that there is no risk of material misstatement within those locations. These procedures include review of the subsidiary auditors group return, review of the consolidation process and analytical review. Sandway Homes Ltd is not material for the Group. We will review consolidation process and perform analytical review.

Scoping the group audit (continued)

Group audit team involvement in component audits

Auditing standards require us to be involved in the work of our component teams. We have listed our planned involvement below.

Sefton Metropolitan Borough Council as a stand alone entity is considered the significant component and a full scope entity for which we complete the audit procedures as set out in the other sections of this audit plan.

This covers over 99.8% of the group accounts income and expenditure.

Auditing standards require us to be involved in the work of component teams. For 2020/21 this will relate to the audit of Sefton New Directions Limited, undertaken by Hazlewoods LLP.

We have listed our planned involvement below:

We will provide specific instruction to Hazlewoods LLP setting out our expectations regarding the detailed procedures over income recognition and going concern;

We will set up an initial meeting with the component team to discuss the content of the group instructions;

We will consider the need to perform a file review of component team's work where appropriate; and

We will review the reporting pack from the component auditor on procedures performed and findings.

As a result of our discussions with management we do not expect any other entities to be consolidated in to the group accounts. Management have agreed to provide their assessment of other subsidiaries to confirm that they are not intended to be consolidated on grounds of immateriality to the group.



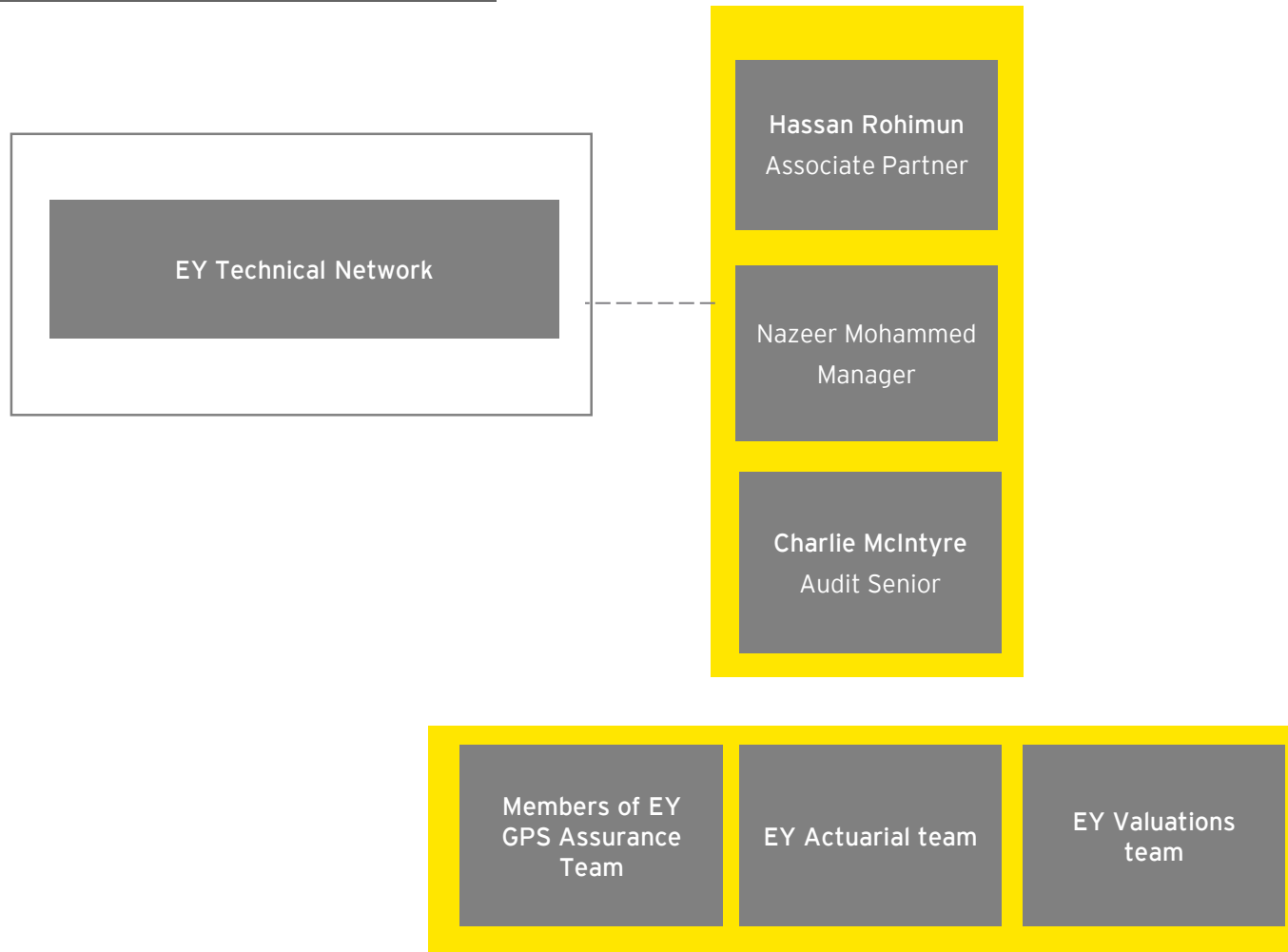
06

Audit team



Audit team

Audit team structure:



Audit team

Use of specialists

Our approach to the involvement of specialists, and the use of their work:

When auditing key judgements, we are often required to rely on the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where either EY or third party specialists provide input for the current year audit are:

Area	Specialists
Valuation of Land and Buildings	EY Valuations Team
Pensions disclosure	EY Actuaries

In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Council's business and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- ▶ Analyse source data and make inquiries as to the procedures used by the specialist to establish whether the source data is relevant and reliable;
- ▶ Assess the reasonableness of the assumptions and methods used;
- ▶ Consider the appropriateness of the timing of when the specialist carried out the work; and
- ▶ Assess whether the substance of the specialist's findings are properly reflected in the financial statements.



07

Audit timeline





Audit timeline

Timetable of communication and deliverables

Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2020/21.

From time to time matters may arise that require immediate communication with the Audit and Governance Committee and we will discuss them with the Audit and Governance Committee Chair as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.

Audit phase	Timetable	Audit and Governance Committee timetable	Deliverables
Planning: Risk assessment and setting of scopes	November		
	December	Audit and Governance Committee	
	January		
Walkthrough of key systems and processes	July		
	November	Audit and Governance Committee	Audit Planning Report
Year end audit Audit Completion procedures	July - December		
Year end audit Audit Completion procedures	December	Audit and Governance Committee	Audit Results Report Audit opinions and completion certificates
	Jan 2022	Audit and Governance Committee	Annual Audit Report



08

Independence





Introduction

The FRC Ethical Standard and ISA (UK) 260 “Communication of audit matters with those charged with governance”, requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in December 2019, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications	
Planning stage	Final stage
<ul style="list-style-type: none"> ▶ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between you, your affiliates and directors and us; ▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review; ▶ The overall assessment of threats and safeguards; ▶ Information about the general policies and process within EY to maintain objectivity and independence. 	<ul style="list-style-type: none"> ▶ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed; ▶ Details of non-audit/additional services provided and the fees charged in relation thereto; ▶ Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us; ▶ Details of any non-audit/additional services to a UK PIE audit client where there are differences of professional opinion concerning the engagement between the Ethics Partner and Engagement Partner and where the final conclusion differs from the professional opinion of the Ethics Partner ▶ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy; ▶ Details of all breaches of the IESBA Code of Ethics, the FRC Ethical Standard and professional standards, and of any safeguards applied and actions taken by EY to address any threats to independence; and ▶ An opportunity to discuss auditor independence issues.

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.

Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective. However we will only perform non-audit services if the service has been pre-approved in accordance with your policy.

Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of Hassan Rohimun, your audit engagement partner, and the audit engagement team have not been compromised.

Self interest threats

A self interest threat arises when EY has financial or other interests in the Council. Examples include where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees. We believe that it is appropriate for us to undertake those permitted non-audit/additional services set out in Section 5.40 of the FRC Ethical Standard 2019 (FRC ES), and we will comply with the policies that you have approved.

When the ratio of non-audit fees to audit fees exceeds 1:1, we are required to discuss this with our Ethics Partner, as set out by the FRC ES, and if necessary agree additional safeguards or not accept the non-audit engagement. We will also discuss this with you.

A self interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard part 4.

There are no other self interest threats at the date of this report

Self review threats

Self review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements. There are no self review threats at the date of this report.

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of the Council. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work.

There are no management threats at the date of this report.

Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.

There are no other threats at the date of this report.

Other communications

EY Transparency Report 2020

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained. Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year end 30 June 2020:

https://assets.ey.com/content/dam/ey-sites/ey-com/en_uk/about-us/transparency-report-2020/ey-uk-2020-transparency-report.pdf



09

Appendices



Appendix A

Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Housing, Communities and Local Government.





This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

We will provide further details on the fee in our next update to the audit committee.

Appendix B




Required communications with the Audit and Governance Committee

We have detailed the communications that we must provide to the Audit and Governance Committee.

			 Our Reporting to you
Required communications	 What is reported?	  When and where	
Terms of engagement	Confirmation by the Audit and Governance Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.	
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.	
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit planning report - November 2021	
Significant findings from the audit	<ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process 	Audit results report - December 2021	




Appendix B

Required communications with the Audit and Governance Committee (continued)

			 Our Reporting to you
Required communications	 What is reported?	 When and where	
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 		Audit results report
Misstatements	<ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ Corrected misstatements that are significant ▶ Material misstatements corrected by management 		Audit results report
Fraud	<ul style="list-style-type: none"> ▶ Enquiries of the Audit and Governance Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ A discussion of any other matters related to fraud 		Audit results report
Related parties	<ul style="list-style-type: none"> ▶ Significant matters arising during the audit in connection with the entity's related parties including, when applicable: ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the entity 		Audit results report




Appendix B

Required communications with the Audit and Governance Committee (continued)

 Our Reporting to you		
Required communications	 What is reported?	 When and where
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence 	Audit Planning Report and Audit Results Report




Appendix B

Required communications with the Audit and Governance Committee (continued)

			 Our Reporting to you
Required communications	 What is reported?	 When and where	
External confirmations	<ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures 	Audit results report	
Consideration of laws and regulations	<ul style="list-style-type: none"> ▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ▶ Enquiry of the Audit and Governance Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit and Governance Committee may be aware of 	Audit results report	
Internal controls	<ul style="list-style-type: none"> ▶ Significant deficiencies in internal controls identified during the audit 	Annual Audit Report - January 2022	
Group audits	<ul style="list-style-type: none"> ▶ An overview of the type of work to be performed on the financial information of the components ▶ An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components ▶ Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work ▶ Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted ▶ Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements 	Audit planning report Audit results report	

Appendix B

Required communications with the Audit and Governance Committee (continued)

			 Our Reporting to you
Required communications	 What is reported?	 When and where	
Representations	Written representations we are requesting from management and/or those charged with governance	Audit results report	
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report	
Auditors report	<ul style="list-style-type: none"> ▶ Any circumstances identified that affect the form and content of our auditor's report 	Audit results report	
Certification work	Summary of certification work undertaken	Annual Auditors Report	

Additional audit information

Other required procedures during the course of the audit

In addition to the key areas of audit focus outlined in section 2, we have to perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below that we will undertake during the course of our audit.

Our responsibilities required by auditing standards

- ▶ Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- ▶ Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group and Council's internal control.
- ▶ Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ▶ Concluding on the appropriateness of management's use of the going concern basis of accounting.
- ▶ Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- ▶ Obtaining sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. Reading other information contained in the financial statements, the Audit and Governance Committee reporting appropriately addresses matters communicated by us to the Audit and Governance Committee and reporting whether it is materially inconsistent with our understanding and the financial statements; and
- ▶ Maintaining auditor independence.

Additional audit information (continued)

Purpose and evaluation of materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.

Materiality determines:

- ▶ The locations at which we conduct audit procedures to support the opinion given on the Group financial statements; and
- ▶ The level of work performed on individual account balances and financial statement disclosures.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.