

27 January 2021

Dear Audit Committee Chairs and CFOs,

Given the increase in restrictions that are in place in response to the ongoing Covid-19 pandemic, many people involved in preparing and auditing financial statements have been considering the impact this will have on reporting timetables for upcoming Annual Report and Accounts starting with those for the year ended 31 December 2020.

Today the FRC and the FCA published a joint statement for companies, auditors and users of financial statements [LINK](#). In this they encourage all stakeholders, particularly those boards of listed companies, to re-familiarise themselves with the measures that have been put in place to provide flexibility during this time including allowing listed companies an additional two months to publish their audited annual financial statements and to use them in light of any resourcing constraints in finance and/or audit teams to ensure the quality of reporting is not compromised during this period.

Given these circumstances, and in my role as EY's UK Head of Audit, I am writing to the companies we audit as I am keen we all consider the additional challenges that have arisen since year end timetables were determined, the risks these bring to the year end reporting and auditing cycle and consider whether timetables should now be revised.

On 12 November the FRC published its annual end of year letter to CEOs, CFOs and Audit Committee Chairs setting out its reporting expectations for preparers of reports and accounts for the year ahead [LINK](#). In this letter, issued before the current restrictions were increased, the FRC encouraged boards to carefully consider whether they should lengthen their reporting timetables for 2021, making use of the extensions to reporting deadlines that remain in place. The increased restrictions bring more relevance to this request.

Preparing and auditing financial statements during the last nine months has been particularly challenging for the following reasons:

- ▶ There are difficult judgements to make due to the uncertainties in forecasting the future. Allied to this, auditors have consultation obligations for significant judgements which must be factored into the year-end timetable.
- ▶ A broad range of stakeholders are relying on preparers and auditors of financial statements to be more transparent about the key judgements made given the uncertainty which exists.
- ▶ Remote working has added to the time taken to both prepare and audit financial statements. It has also increased the risk of error and fraud if processes and controls fail to operate as they would normally.
- ▶ Providing the required oversight from both management and auditors of component operations is challenging when travel is prohibited.

The availability of finance staff and auditors has been impacted over this time both by illness and the closure of schools. With the increasing prevalence of the virus and schools being closed again the staffing impact is now more significant. It also coincides with peak demand for audit resources across all the firms given the volume of December 2020 year ends.

We know from our experience of auditing financial statements for years ending from March 2020 onwards that many companies needed to lengthen their reporting timetables for us all to deal with the challenges presented. Our experience was this was better if an early decision was made and plans revised accordingly.

The FRC has made it clear that a high-quality audit is even more important in these challenging times and there is no reduction in their expectation of the audit firms to perform audits of the highest quality in full compliance with all auditing standards.

The combination of these factors means that the challenges for both finance teams and auditors are very real. However, we cannot allow the standard of corporate reporting or auditing to be adversely impacted by this situation as we will be collectively judged by the quality of our response in the months to come. Accordingly, I ask that you carefully consider your reporting timetable in light of these circumstances and be certain you are satisfied that it remains appropriate otherwise revise it accordingly.

We may have to make the difficult decision to delay the signing of audit opinions where we consider all reasonable steps have been taken to meet the deadlines but despite this effort the audit work is not complete at the deadline date. Your engagement team will let you know immediately if anything happens which could threaten our ability to complete your audit on time.

I thought it would be helpful to be clear about the need to perform a high-quality audit in challenging circumstances and to take this opportunity to ask that you consider your current plans. I believe that with the combined focus we will all bring we can successfully navigate the challenging months ahead.

Your sincerely

Addressed to Chief Financial Officers and Audit Committee Chairs for  
PSAA audited bodies (Local Government, Police and Crime  
Commissioners, Chief Constables, Fire and Rescue Authorities)

Sent by email

Dear Chief Financial Officer and Audit Committee Chair

## **Scheduling high-quality 2020/2021 local public audits**

In February 2020, I wrote to you to address the concerns we all share regarding the sustainability of financial reporting and auditing in England. Since then, we have collectively had to respond to all the unprecedented challenges that have arisen following the coronavirus pandemic (Covid-19). Thank you for the way you and your officers have responded to these difficult circumstances in the public interest and supported my teams with our audits.

Over the past six months, the Sir Tony Redmond review, Ministry of Housing, Communities and Local Government (MHCLG) response and recent consultations on 2020/2021 reporting timetables have sought to put in place measures to address the much needed stability of the local public audit market.

The National Audit Office's (NAO) recent report on the timeliness of local auditor reporting in England explored the factors that have led to the increasing delays to the delivery of audited financial statements. We contributed to this review and recognise most of the NAOs findings. In particular we agree with the NAOs comments that the Covid-19 pandemic has had a significant impact on the delivery of the 2019-2020 audits, the financial position of audited bodies and exacerbated problems which already existed within the local audit landscape.

I want to set out the principles which will guide the scheduling of our 2020/2021 external audits and how we will work with you as and when Covid-19 restrictions are eased. This will support conversations your Audit Partner will be having with you as we plan and deliver your 2020/21 external audit.

### **Context guiding our scheduling of 2020/21 external audits**

On the 31<sup>st</sup> March 2021, MHCLGs amendments to the 2021 Accounts and Audit Regulations came into force. This sets an expectation that you have up to the 1<sup>st</sup> August 2021 to publish draft financial statements, and the target date for the publication of audited accounts is 30 September 2021.

We have said in response to MHCLG's consultation on the reporting timetable that we do not believe this is realistic or sustainable for the following reasons:

- The continuing impact of Covid-19 restrictions on the financial reporting and audit cycle across the corporate and public sectors. Our UK Head of Audit wrote to your peers for our corporate audits on 27<sup>th</sup> January 2021 setting out the impact on reporting timetables, reinforcing guidance issued from the Financial Conduct Authority and the Financial Reporting Council (FRC). This letter is appended for your information.
- Impact of later completion for remaining 2018/2019 and 2019/2020 local public audits, and the delay that has resulted in starting 2020/2021 audits. Practically, this means significantly more audit work will be required in the final stage of our audits in August and September 2021 than is usual, especially as little interim procedures have been performed by 31<sup>st</sup> March.
- We expect and do understand why some of you will take the opportunity of getting ready to produce draft accounts by the 1<sup>st</sup> August. However, doing so leaves auditors only two months to complete the audit, including the month of August when we anticipate with the lifting of Covid-19 restrictions, your officers and our staff may plan to take annual leave.
- One of the many issues recognised by the Redmond review is that there are insufficient numbers of skilled and specialist local auditors to deliver local audit within such a shortened timeframe. The implication of the reporting timetable is to require auditors to move at an even faster pace to catch up, which does not safeguard audit quality and our professional standards. We are also concerned that this timetable could do irreparable damage to the attractiveness of the local audit profession.
- Additional work required by finance teams and auditors to respond to the increasing complexity of decision making, including commercialisation and group accounting. Covid-19 has exacerbated this and led to greater levels of estimation, uncertainty and risk in financial reporting and financial sustainability. This will continue to require additional procedures for your teams and ours, including the use of specialists and navigating professional practice consultations.
- Other jurisdictions such as Audit Scotland are proposing to revise the 2020/2021 local authority reporting timetable to the 30<sup>th</sup> November 2021 in recognition of these circumstances.

### **Delivering our 2020/2021 external audits**

We have said to MHCLG, NAO and Public Sector Audit Appointments Limited (PSAA) that our approach will continue to be to plan and perform our audits to safeguard our highest standards of quality. The FRC are currently inspecting a sample of our 2019/2020 audits but have recognised the good quality of our local public audits last year.

We believe a high-quality audit is even more important in these challenging and unprecedented times and will not compromise or reduce our expectations. We will provide our audit opinion when we are satisfied that we have performed sufficient quality work to support our judgements, rather than by a certain and potentially unrealistic date. This means we will be scheduling a number of 2020/2021 external audits for completion after the 30<sup>th</sup> September 2021.

I am aware some but not all of you will have already had discussions with your Audit Partner on provisional timetables. I do encourage you and the Audit Partner to collectively consider all the challenges that have arisen since Covid-19 restrictions and make an informed joint assessment on a realistic and achievable timetable that ensures the quality of financial reporting and audit is not compromised. This assessment should consider the finance and audit team constraints and the complexity of the financial reporting and audit process.

Each of our regional office leads is finalising their delivery plan for the 2020/21 external audits. The proposed timing of your external audit is being determined using a consistent set of principles to ensure we have a fair and equitable basis for scheduling audits before the 30<sup>th</sup> September 2021 and those afterwards. These principles include the plans to conclude overdue 2018/19 and 2019/20 external audits, our assessment of your preparedness for audit, expectation on level of audit errors and findings, the degree of risk and complexity including any significant changes since the prior year and maximising our availability of qualified and experienced audit staff and specialists.

### **Ways of working**

I am aware that you will be having ongoing dialogue with MHCLG on how the easing of Covid-19 restrictions will impact on your operations and ways of working, now and in the future.

Generally, we have found that our technology (EY Canvas, EY Canvas portal and Microsoft Teams) has been successful and resilient, supporting high-quality audits. This has led to more flexibility and agility on the way in which remote audits are conducted. We intend to follow these working practices again with you and your teams for the 2020/2021 audits, and therefore I am not expecting full-time on-site audit presence. These principles will also support how we work with you on our move to an increasingly digital and data-driven audit in the future.

In addition, your Audit Partner and Engagement Manager have been more productive and flexible by their ability to attend more meetings virtually, eliminating significant travel time and contributing to our net carbon targets. I am not expecting our more senior staff to be attending meetings with management and Audit Committees in person in every case when restrictions are eased.

I do recognise though that there may be circumstances which mean we do need to be flexible and proportionate. I have asked your Audit Partner and Engagement Manager to discuss with you and your finance team and arrive at a shared understanding on the planned working arrangements and approach this year. This is particularly important to support discussions with new members of Audit Committees post the May 2021 local elections.

## Next steps

I am keen that we have a collective and combined focus to work together and navigate the challenging months ahead and, importantly, to agree the proposed timing of your 2020/21 external audit and how we work with you this year.

We are continuing to work with MHCLG, CIPFA/LASAAC, ICAEW, NAO and PSAA to share our point-of-view on those areas that are critical to stabilise the local public audit system and improve the sustainability of financial reporting and audit in England, and I provided evidence to the Public Accounts Committee last month on those issues. We will be responding to further consultations from MHCLG and others on the implementation of the Redmond recommendations. We will also be considering the implications for financial reporting and local public audit following the recent Department for Business, Energy & Industrial Strategy consultation on reforms to corporate governance and the audit profession. Your Audit Partner will be able to discuss our point of view with you and at your future Audit Committee meetings.

In the meantime, if you have any questions on this letter, please do not hesitate to contact me using the details provided.

Yours faithfully