

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



Andrew Walton
UK Head of Audit