



**Report to: Audit and Governance Committee, 15<sup>th</sup> July 2021**

**Report of: Head of Finance**

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**Subject: ANNUAL ACCOUNTS AND EXTERNAL AUDIT 2020/21**

**1. Recommendation**

- 1.1 That the Committee notes the plans for publishing the annual Statement of Accounts.**
- 1.2 That the Committee approves the proposed approach for the external audit for 2020/21.**

**2. Background**

- 2.1 It is a statutory requirement for the Council to prepare an annual Statement of Accounts as at 31 March and for these to be audited by an external firm of accountants who are appointed by the PSAA (Public Sector Audit Appointments).
- 2.2 Prior to the Covid-19 pandemic, the annual deadline for preparing and publishing the draft annual accounts was 31 May, with a final audited set of accounts to be completed by 31 July. For the year 2018/19, the City Council met these deadlines.
- 2.3 The 2019/20 accounts preparation and external audit were disrupted by the pandemic. In recognition of the difficulties this had created, the Government extended the deadlines to be 31 July for the draft accounts and 30 November for the final audited accounts. The Council's draft accounts were published on 18 June 2020 and the final accounts signed by the external auditors on 26 November 2020, just before the revised deadline of 30 November.

**3. Information**

- 3.1 In light of the fact that the restrictions arising from the Covid-19 pandemic have still been in place for most of 2021 so far, the Government has once again extended the deadlines. Draft accounts are to be published by 1 August 2021 and the final audited accounts by 30 September 2021.
- 3.2 The preparation of the draft accounts is progressing well and it is our intention to publish them for public inspection during July.
- 3.3 The Covid-19 pandemic has required most office-based staff to work from home for over 12 months. This includes the City Council and the external auditors Ernst Young.

The 2019/20 audit was therefore conducted remotely using tele-conferencing where appropriate and this year's audit is likely to adopt the same approach.

- 3.4 The external audit was due to commence in June 2021. However recent correspondence received from Ernst Young has confirmed that this is no longer possible. The effects of the pandemic mean that there are several public sector audits for 2019/20 that are still ongoing and these need to be completed before new audits are started.
- 3.5 The delayed start for the audit means it is highly likely that the statutory deadline for publishing the audited annual accounts by 30 September 2021 will be missed. There are no penalties for missing the deadline but it is nevertheless disappointing. The Council is required, under regulations, to publish the reasons why audited accounts have not been provided by the due date and to publish them as soon as reasonably practicable after receiving the auditor's report.
- 3.6 The Council has responded with a letter from the Chairman and Vice-chair of this committee, see **Appendix 1**.
- 3.7 Ernst Young have subsequently advised that they plan to commence the audit of the three South Worcestershire District Councils from 25 October 2021. The City Council has the option for a traditional stand-alone audit that would last for approximately five weeks or for an audit that will run concurrently with the other two local authorities. The latter approach was adopted successfully for the 2019/20 audit and it is recommended that this approach is adopted for the 2020/21 audit. Although this will take longer than the standalone version, it will provide officers time to prepare the annual budget setting reports which are due at the same time.
- 3.8 Ernst Young have also advised that they no longer wish to carry out the Housing Benefit audit for the certification of the Housing Benefit subsidy. This an appointment made locally by the Council and a new firm of auditors will now be sought.
- 3.9 Ernst Young were appointed by the Public Sector Audit Appointments body (PSAA) to be the external auditor for the City Council for the 5 year period from 2018/19 to 2022/23. This included setting the audit fee to be charged which are in line with the approved budget.
- 3.10 Although the audit for 2019/20 has been completed, the final fee has not yet been agreed. Ernst Young claim that they consider the fee to be too low for the work that is required irrespective of the effects of the pandemic. The effects of the pandemic have further exacerbated the situation with staff working remotely and needing to do additional work arising from the effects of the pandemic. The Council's officers have requested further evidence to support these claims.
- 3.11 The audit fee for 2020/21 is £39,362. Ernst Young have already indicated that they consider this to be too low and have warned that additional fees may also be payable if further unplanned audit work is required.
- 3.12 It is the Council's policy to comply with all codes of practice and financial reporting standards relating to the production and publication of the Statement of Accounts.

The Council's Finance Team will work with the external auditors to ensure that the audit delivery is successful by adhering to the proposed timescales, meeting the audit working paper requirements and by being available during the audit process to deal with query resolution.

- 3.13 The Council's Constitution defines the purpose of the Audit Committee (AC) and its remit. A key part of the AC's purpose is to provide independent assurance to our members of the adequacy of the risk management framework and the internal control environment. To do this, part of the AC's role is to oversee the work of internal audit and our independent external auditors, to ensure that efficient and effective assurance arrangements are in place.

**Ward(s):** All  
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**Background Papers:** None