



Guidance

Choosing an external auditor for an academy trust

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1. Background

Schools, specifically their governing bodies, have control over the spending of their budgets. This relies on sound procurement and governance practices, in order to gain maximum benefit for the school and its pupils, and for maintaining compliance with governance obligations.

Financial monitoring of maintained schools is the responsibility local authorities (LAs), and LAs audit the schools within their remit. Academy trusts, however, are companies limited by guarantee, incorporated under the Companies Act 2006. The appointment of an auditor is a requirement that comes from the Companies Act and such an appointment is often referred to as an external auditor. The main duty of an auditor under the Companies Act is to form and report an opinion each year, on the truth and fairness of the company's accounts.

As well as the appointment of an external auditor, an academy trust must also have processes in place to check financial procedures, systems and risks. This is often referred to as internal audit, internal assurance or responsible officer testing. The following guidance deals with the appointment of external auditors, although many of the principles apply to procuring internal audit services, if an academy trust decides that it will use a third party to undertake internal audit work. An academy trust may decide that it wishes to engage its external auditors to undertake internal audit work.

The requirements for internal audit and options for delivering assurance are

outlined in the [Academies Financial Handbook](#).

2. The legal position, appointment, resignation and removal

2.1 Appointment

The appointment of external auditors is an appointment under section 485 of the Companies Act 2006, whereby a company's annual accounts for a financial year must be audited unless the company is exempt from audit. In normal circumstances, to be exempt from audit, a company must qualify as a small company, the criteria of which are set out in the Companies Act.

However, under its funding agreement with the ESFA, academies must have an audit. Accordingly, academies are not permitted to take advantage of the above exemption.

An auditor of a company has a right of access at all times to the company's books and records. The auditor may require information and explanations from any officer or employee of the company, or any other person holding, or accountable for, any of the company's books and records. Any person that knowingly or recklessly makes a statement (oral or written) or provides any information to an auditor that is misleading, false or deceptive is guilty of a criminal offence.

For an academy trust's first period of account, the auditors are appointed by the board of trustees and it is good practice to formally appoint the auditor at the first meeting of the board. It may be that the auditor has already been identified at an earlier stage and has been advising on the establishment of the trust before its incorporation, but cannot take up the formal appointment as auditor until the trust is incorporated.

2.2 Re-appointment

In subsequent years, an external auditor's term of office will typically run from one annual general (AGM) to the next. After a year's accounts have been signed by the trustees and auditors, they are circulated to the company's members in advance of the AGM. It is normal to deal with the re-appointment of auditors at the AGM. The Companies Act no longer requires all companies to have an AGM and not all academy trusts have it written into their articles that they shall hold such a meeting. In such circumstances, the Companies Act deems re-appointment 28 days following circulation of the previous year's accounts. The term of office would then

run until 28 days after circulation of the accounts for the following year. Provided the appointment is made/confirmed by the members, the default is that the existing auditors are automatically reappointed. However, if the appointment was made by the trustees without subsequent endorsement by the members, then there needs to be a positive decision to re-appoint.

If you wish to change auditor, you will not re-appoint them at the AGM (or you will notify the auditor that they will not be deemed to be re-appointed). Instead, you will appoint the new auditor that you have chosen at the AGM (or within the period for deemed re-appointment of the previous auditor).

2.3 Resignation

If you decide to change auditor in between AGM's (or after deemed re-appointment), this can be done in one of two ways. The most common route is to ask your incumbent auditor to resign, allowing for the appointment of a new auditor.

2.4 Removal

Alternatively, and more rarely, the members of a company may pass a resolution in a general meeting to remove an auditor from office at any time. Proposals to remove external auditors require a majority vote of the members who must provide reasons for their decision to the academy trust's board of trustees. The Companies Act sets out certain rights of the auditor in connection with an auditor's removal.

2.5 Informing ESFA

The board of trustees must notify ESFA immediately of the removal or resignation of auditors. In the case of removal, the trust's board must notify ESFA of the reason for the removal. In the case of resignation, the trust's board must immediately copy to ESFA a statement of explanation from the auditors. A change in auditor at the expiry of their agreed terms of office (that is, when they are not re-appointed in accordance with the re-appointment process detailed above) does not require notification to ESFA.

The AFH covers auditors undertaking work at academy trusts. Audit firms can not undertake statutory audits (financial statements) at an academy trust where anyone within that firm is a trustee at that academy trust. Audit firms can undertake non statutory audits (internal audit, assurance work, projects and so on) under a separate letter of engagement, but if the partner managing this work is a member

or trustee of the academy trust then that work must be undertaken "at cost". If the work is managed by a partner who is not a member or trustee of the academy trust then the "at cost" rule does not apply.

3. What does the auditor do, and what do they want to know?

The auditor will carry out a series of tests which are designed to enable them to form an opinion on whether the financial statements are free from material error. These tests are beyond simple box ticking and are not there first and foremost to find fraud; rather, the auditors want to know that the school is operating against its budget plans, and that this is within a reasonable level of error.

Auditors do not seek to certify that the financial statements are 100% correct, and therefore use the concept of "materiality". Materiality is the level at which auditors decide whether or not an error or other mis-statement, causes the financial statements not to give a true and fair view. To avoid the need for a qualified audit report, material errors would require adjustment. For example, if the auditor has chosen to calculate materiality at 1% of the trust's total incoming resources; a trust which has income totalling £1 million will have a materiality level of £10,000. If the auditor discovers an error of £8,000, then generally this error will be deemed "immaterial" and no adjustment will be mandatorily required. However, materiality is a matter of the auditor's professional judgement, and therefore there may be instances when the auditor discovers an error that would be immaterial by amount, but due to the sensitive nature of the transaction, they feel that the error nevertheless needs to be corrected.

Auditors will feel assured if the academy trust can show the understanding of financial processes, and issues, and that cash-flow and risk registers are up-to-date. Having reconciliations and any monthly checklists completed and ready to show the auditor will also help. Much of the work for a chief financial officer will be in the preparation prior to the auditor's arrival.

For academies, the external auditor must perform as part of the assurance process for ESFA:

- a "true and fair" audit of the financial statements
- regularity audit on the financial statements
- an accountants report to the accounts return

As such it is important to devote time to ensuring you have the right auditor for your purposes. Ultimately this will be something that you as a CFO will be involved in.

The remainder of this guide provides information and tips about finding and choosing an auditor for your trust, and provides a sample document (see Annex)

for when your trust is tendering for an external auditor.

4. How to find an auditor

4.1 Word of mouth

It might be worth talking to other academy trusts to find out who they would recommend. Other existing trusts will be employing the services of an auditor and may be able to make suggestions. Word of mouth is very beneficial as you will be aware of the first hand experiences of other CFOs and audit firms.

4.2 Internet searches

Audit firms promote themselves online so it may be worth searching under 'academy auditors' on an internet search engine.

4.3 Register of Statutory Auditors

You can source an auditor from the [Register of Statutory Auditors](#) which lists both statutory auditors and auditing firms in the UK, and you can search by individual, firm, area or recognised supervisory body (RSB).

4.4 Procuring an auditor through a framework.

Academies can choose to procure an auditor through a framework which can make the process much easier. [Crescent Purchasing Consortium \(CPC\)](#) offers a number of frameworks which can be found on its website.

Note that membership to the purchasing consortium will be required. This can be gained by registering, which is free of charge, on the CPC website.

5. Choosing the right auditor

Trusts should consider the following points to help identify the needs they have

when choosing an audit firm. These needs can then be used as the basis of an invitation to tender (ITT).

Once tenders are received a shortlist should be identified who are asked to make a presentation to a selection panel and the successful auditor selected.

5.1 Points to consider

Size and complexity of the academy trust

Is the trust a single academy trust or a multi academy trust?

Are there any nuances within the trust? For example, PFI contracts, inclusion of a special school, boarding provision, trading subsidiaries and so on, where the experience of particular audit firms may be of benefit.

Local or national firm

Would a local or national firm suit the needs of the academy trust better?

Does the trust have a wide geographical spread which a national firm would be better placed to advise?

Additional services required

In addition to the external audit are any of the following services needed:

- Teachers' Pension certification
- Management accounting
- Payroll services
- Statutory (annual) accounts preparation
- Corporation tax advice
- VAT advice
- Business strategy and financial planning
- Internal assurance
- Support with risk management, governance arrangements or trustee training
- Company secretarial support

Conflicts of interest

These should be identified at the beginning of the process and documented as required. Auditors are required to be independent and have their own strict rules which they have to follow. Generally, any relationship between a partner of an audit firm and a trustee of an academy trust would be a barrier to independence, but any employee relationships between the audit firm and the academy trust should also be carefully considered.

6. Entering discussions with auditors - checklist

6.1 When should I look for an auditor and how many tenders?

If the academy trust has not already identified an auditor prior to its incorporation, ideally you should look for an auditor as soon as possible after the conversion of the first constituent academy or receipt of DfE funding, if prior to that. The financial management and governance self-evaluation (FMGS) return (due for completion within 4 months of conversion) does ask whether an external auditor has been appointed.

It is up to the trust how many audit firms they wish to invite to tender. As a rule of thumb 3 is a good number. However you may wish to send out more invitations to tender (maybe 4) requesting a written proposal, from which you may shortlist 2 or 3 to present to a selection panel. It depends on the information the auditor has provided and whether you think they would be a good fit for your academy trust.

At the start of the tender process, you should identify the relevant people (representing management and trustees) in the trust that will be involved in the selection of the auditor. Relevant people to consider are the CFO and the accounting officer from a senior leadership team perspective and the chair of trustees and the chair of audit committee (or finance committee if you do not have a separate audit committee), representing trustees.

The checklist below is not exhaustive, however it should give academies a starting point for the ITT to send to potential auditors:

6.2 Questions to ask potential auditors

Experience of the audit firm

Academy trusts are exempt charities and their annual accounts are prepared in charity format. As well as ascertaining the firm's audit experience in the academy sector, it is important to also understand what experience the firm has in acting for charities, auditing them and in preparing charity accounts. Experience with other entities in the education sector (such as independent schools, FE/HE institutions etc) may also be helpful.

Many academy trusts are quite sizeable businesses in their own right (with multi-million pound incomes and significant staff numbers), so again, it is helpful to establish the firm's experience in dealing with other entities (including commercial

clients) of a similar size. This may help in obtaining better business and commercial advice.

If you have trading subsidiaries or linked charities (for example operating a nursery), you will wish to establish the firm's experience in dealing with such entities and the consolidated accounts that may be required to combine the group entities.

It may be that you do not have such complexities at present, but that you foresee a potential need in the future.

Market presence

Does the audit firm have a good reputation?

Has the firm established itself as reliable and knowledgeable, particularly within the academy sector?

Financial standing

All audit firms are required to carry appropriate professional indemnity insurance. However, you may also wish to establish that the potential audit firm is of sound financial standing itself. A copy of the firm's own accounts may be requested.

Capacity and resources to take on and service new clients

All academy trusts have a year end of 31 August with a deadline for filing accounts with the ESFA by 31 December. Accordingly, the autumn period is a particularly busy period for academies and audit firms alike. You should therefore establish the structures and/or processes that the firm has in place to ensure that your trust will receive the support and attention it needs to meet your timetables.

Does the firm use subcontractors and/or employees on temporary or fixed term contracts to undertake some of the work? If so, what procedures does it have in place to control the quality of work so undertaken and for the continuity of service from one year to the next.

It is useful to gain an understanding of the total partner and staff resource of the firm as well as more specifically the numbers of partners and staff dealing with academies. You should understand how the firm will deal with an unexpected incapacity of any member of the audit team, especially the audit partner and/or manager.

Level of support

Will the firm be able to offer a sufficient level of support to the academy, both during the audit and throughout the year? The academy should be able to utilise the expertise of the auditors for any ad-hoc accounting queries. Subject to the complexity/frequency of the queries, many firms will provide such support without additional charge. You should seek to clarify the position through the ITT process.

You should seek to establish the form and frequency of information/updates that the audit firm will provide to the academy trust, to help keep it up to date, especially in respect of sector specific guidance.

Clear fee structure

Through the ITT, you should seek that fees are clearly outlined, stating what services are included and which are excluded, and also what circumstances would give rise to additional fees being charged. You should also seek to clarify the position regarding fees for future periods and the basis of any changes.

Levels of staff involved

As well as the experience of the audit firm referred to above, it is important to establish the individuals that will make up the audit team and their level of relevant expertise/experience. It will be a good idea to ask for relevant cv/profile information of applicable partners/senior members of staff.

It is likely that the auditors will carry out a proportion of their work on-site at the academy. It will be useful to understand how this will be organised in terms of team members, timing etc.

Advisory services

If you are requiring the audit firm to provide specialist advice in respect of non-audit/accounts matters (such as corporation tax/VAT), establish whether this is provided by the audit staff, specialist staff within the audit firm (and if so, ask for cv/profile information) or whether it is sub-contracted out to other firms or individuals. In the latter instance, you will wish to establish procedures for quality control, contractual liability for advice given, etc.

Sample management letter

This is a letter which is provided to the Academy Trust at the end of the audit. It details the procedures that the audit firm followed and any significant issues/areas of weakness in the academy's controls processes which the audit firm has identified. These documents are designed to help the academy improve its financial controls and processes and therefore it should be presented clearly and have sufficient detail to be of benefit to the academy.

Audit plan

Ask the potential audit firms to explain their audit procedures, including their approach to materiality, view on audit risks, methods of communication, proposed timetable etc.

Establish to what extent the audit firms will provide you with a "deliverables list" or "information request", which provides the academy trust with a list of documents which the audit team requires in order to complete the audit.

Quality assurance and independence

Ask the audit firm about its overall approach to quality assurance and how it deals with potential conflicts of interest.

You may also be interested to know how the firm deals with rotation of the Responsible Individual (the named person that signs off the audit report) and succession. The firm's approach to continuity of staffing may also be relevant.

References

It is always a good idea to ask for the names and addresses of existing clients of the firm that you can talk to. You may wish to specify that these should be from the academy sector, or at least one of them, if you are asking for two names.

A well-structured ITT will mean that you are able to compare and contrast the invited audit firms in an efficient and fair way, to enable you to differentiate between them. Being specific about what you are looking for will help to ensure you gather the information that matters from the audit firms.

Also, by being specific about your requirements at the outset, audit firms can withdraw from the tender process at an early stage without wasting your time and theirs if they are not going to be able to meet your criteria.

It is good practice to set out for firms the criteria on which they will be judged.

7. How often do you need to change auditors?

As academy trusts are smaller companies, there are no set rules as to how often you re-tender for audit services. To set this in context, the largest 350 listed companies in the UK (the FTSE 350) are required to tender for audit services at least once every ten years. Good auditing requires a good understanding of the audited entity, so it can be counter-productive to change auditor too often. It is also a time consuming process for academy trusts and audit firms to go through a full re-tender process too regularly. On the other hand, too close a relationship is undesirable, and, as with all contractual relationships, trusts need to keep it under review in terms of ongoing quality and value for money. The main thing is to ensure you are getting the best out of your auditor for your needs.

Academy trusts' accounts are readily available (for example from their own websites and Companies House) and auditors' remuneration (split between audit and other services) is disclosed in those accounts. You can, therefore, periodically benchmark your auditor and take account of the fees you pay in assessing your auditor's performance. If you have concerns in respect of quality of service or cost, and these are not being satisfactorily addressed, then you should conduct a re-tender process in line with the tender guidance above. Unless

you have decided you definitely do not wish to re-appoint your existing auditor, then it would be normal to include them in the list of firms you approach as this will enable you to make a good comparison.

In order to help evaluate the audit service that you receive, it is worth asking the following questions. You should discuss your responses with the audit firm; feedback in both directions helps to improve service for subsequent years.

7.1 Audit evaluation questions

How was the audit process?

Did the audit run smoothly and to the agreed timetable?

If there were issues arising, were they communicated promptly and to the right people within the academy trust?

What was the quality of communication between auditors and the Trust?

Did the firm ensure attendance at appropriate meetings (for example, finance or audit committee)?

Auditor understanding

Did the auditor take time to understand the needs of the trust?

Have they taken time to explain any issues when they have arisen? Did they cater for your needs?

Value for Money

Were the audit fees charged in line with expectations?

Were there any unexpected additional costs?

Audit team

Did the firm send competent staff?

Were the audit staff thorough in their work and how was their interaction with academy staff and trustees?

Was the partner engaged in the process?

8. Resources

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