



# Waingels

## External Audit Contract Policy/Guidance

### June 2022

#### External Audit Contract Policy/guidance updated June 2022

This guide provides guidance for members, trustees, audit and risk committees, accounting officers and chief financial officers (CFOs) of academy trusts on choosing the right external auditor (“auditor”).

As explained by the Financial Reporting Council (FRC) in its [audit quality practice aid for audit committees](#), having an auditor in place that provides a high-quality service gives assurance to the academy trust and its stakeholders that its financial statements give a true and fair view of its position and provide a reliable basis for taking decisions.

#### 2. What is the status and scope of this good practice guide?

Under their funding agreements, academy trusts must appoint an auditor, and the [Academy Trust Handbook \(ATH\)](#) sets out requirements for their appointment. The auditor must be engaged to carry out a statutory ‘true and fair’ audit of its financial statements and a regularity review.

Some auditors provide additional assurance services over and above the statutory audit and regularity review, for example, teachers’ pension fund audits. Although such services are not specifically covered in this guide, the ‘selection principles’ covered are similar. Conflicts of interest are an important consideration when procuring additional services and they are discussed in more detail in [section 6](#) of this guide.

This good practice guide does not replace or modify the ATH requirements. It aims to provide more detail on the work of an auditor and give best practice on finding and choosing an auditor that will provide a high quality, cost effective and efficient audit.

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

##### 3.1 Provide a statutory audit of the financial statements

The auditor will carry out a series of tests to enable them to form an opinion on whether the annual financial statements give a “true and fair view” of the academy trust’s financial performance and position. The auditor also forms an opinion on whether the financial statements have been prepared in accordance with the reporting framework requirements.

##### 3.2 Carry out a regularity review of the financial statements

For the regularity review, the same auditor (who undertakes the role of “reporting accountant”) must report whether “anything has come to their attention which suggests that in all material respects, expenditure disbursed and income received have not been applied to purposes intended by Parliament or that the financial transactions do not conform to the authorities which govern them”. This engagement will draw on the statement of regularity, propriety and compliance prepared by the accounting officer and will be informed by the auditor’s testing of the financial statements.

##### 3.3 What will the auditor want to see?

Much of the work will be in the preparation prior to the auditor’s arrival. The separate [external audit preparation checklist](#) sets out what an auditor may wish to review and understand. The [framework and guide for external auditors and reporting accountants of academy trusts](#) also provides more details on the expectations and requirements of the audit work.

#### 4. Appointing and changing the auditor

#### **4.1 Appointment**

For an academy trust's first period of account, the auditors are appointed by the board of trustees, as permitted under the Companies Act 2006 (section 485).

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.

The ATH stipulates that the audit contract and regularity engagement must be in writing. The letter of engagement must allow for the removal of auditors before the expiry of the term of office in exceptional circumstances. There must also be a requirement in the letter of engagement for the auditors to provide the academy trust with an explanation if the auditors resign, within 14 calendar days of their resignation. If additional services are purchased, a separate letter of engagement must be obtained specifying the work and the fee.

To allow ESFA to draw assurance from the reporting accountant's regularity report, there are pre-agreed terms of engagement in place, which can be found in Annex A of the [framework and guide for external auditors and reporting accountants of academy trusts](#). ESFA requires that academy trusts and reporting accountants must adopt these terms of engagement and any substantial changes must not be made without ESFA's prior written consent.

#### **4.2 Re-appointment**

In subsequent years, under the Companies Act 2006 (section 485), the academy trust's members appoint the auditors. It is normal to deal with the re-appointment of auditors at an annual general meeting (AGM) and the term of office will typically run from one AGM to the next.

The general points to note under the Companies Act 2006 are as follows:

- appointment of the auditor will ordinarily be within 28 days of the academy trust providing its annual accounts to its members (section 485(2) of the Act). For academy trusts, this would usually be at an AGM
- the auditor ceases to hold the appointment for the following year unless reappointed (section 487(1))
- if no auditor has been appointed for the following year the current auditor is deemed reappointed unless:
  - they had been appointed by the trustees; or
  - the articles require actual reappointment; or
  - the members decide not to reappoint (section 487(2))

#### **4.3 Re-tendering**

Academy trusts should re-tender their audit contract at least every five years as set out in the ATH. They must consider the relevant points in the ATH when evaluating the auditor's performance. More information on this evaluation is contained in [section 7](#) of this guide.

If the academy trust wished to benchmark its existing audit contract it can use the Department for Education's [view my financial insights tool](#). Audit fees are a separate line in the school level benchmarking data. However, the data collected is the total paid on audit fees, so it may include some additional services.

#### **4.4 Changing the auditor - resignation**

In between AGMs (or after re-appointment) the auditor has the right to resign by written notice to the academy trust under the Companies Act (Sections 516 to 525). At the time of appointment, the academy trust may wish to identify the notice period required.

#### **4.5 Changing the auditor - removal**

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 auditors must 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.

## 4.6 Informing ESFA

The ATH states the board of trustees must notify ESFA immediately of the removal or resignation of auditors. In the case of removal, the academy trust's board must notify ESFA of the reasons, copying to ESFA any statement received from the auditor on this matter. In the case of resignation, the academy trust's board must immediately copy to ESFA an 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.

## 5. How to find an auditor

The sections below are just some examples of the ways in which an academy trust can find an auditor who may wish to respond to an invitation to tender.

### 5.1 Word of mouth

It might be worth talking to other academy trusts to find out who they would recommend.

### 5.2 Register of Statutory Auditors

Source an auditor from the [Register of Statutory Auditors](#) which lists both statutory auditors and accountancy firms ("firms") in the UK, and it is possible to search by individual, firm, area or recognised supervisory body.

### 5.3 Procure through a Department for Education (DfE) framework

Academy trusts can choose to procure an auditor through the audit services framework, which can make the process much easier. [Crescent Purchasing Consortium \(CPC\)](#) offers several professional service frameworks, including audit services, and DfE recommends this framework.

## 6. Appointing an auditor

### 6.1 Starting the process

If the academy trust has not already identified an auditor prior to its incorporation, ideally it should look for one 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-assessment \(FMGS\)](#) return (due for completion within 3 months of opening their first academy) does ask academy trusts whether an auditor has been appointed.

It is up to the academy trust how many firms they wish to invite to tender, but it is essential that the number submitted is sufficient to ensure effective competition. More information on tendering in general is available in the [tendering jargon busting guide](#), including current procurement thresholds.

At the start of the tender process, identify those people in the academy trust who 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. Also, the chair of trustees and the chair of the audit and risk committee, representing trustees - particularly as one of the audit and risk committee's roles is to make recommendations on the reappointment, dismissal, or re-tendering of the auditor.

It is important that all those involved in the tender process can devote enough time to ensuring the academy trust has the right auditor for their purposes.

A robust tender process is key in ensuring an auditor is appointed who can deliver a high-quality audit. The remainder of this guide provides you with key points to consider.

### 6.2 Key points in appointing an auditor

Members of the Academies Auditor Forum (made up of representatives from firms acting as auditors for academy trusts) have identified and illustrated the key pieces of information to provide to potential firms, as well as key questions for these firms to answer when tendering. This illustration is shown below and more detail on each of the points is set out in the remainder of this section.

[Download annex 'External audit procurement key information'](#)

Also covered below is additional information which you may wish to request from firms, depending on your circumstances.

Being specific about what you are looking for at the outset will help to ensure you gather the information that matters from the firms and will enable you to differentiate between them. It will also allow them to withdraw from the tender process at an early stage if they are not going to be able to meet your criteria.

Once tenders are received, you should identify a shortlist of firms to make a presentation to a selection panel, who will select the successful auditor. At the end of the process, it is helpful to unsuccessful bidders if you provide feedback, but you must only comment on their bid. This will help them to improve for the future.

### **6.3 Key information to provide to potential firms**

You should provide details of your academy trust, stating:

- are you a single or multi-academy trust and how many academies are part of your trust?
- what is the total income of your academy trust?
- are there any future plans affecting the structure/size of your trust, for example mergers/expansions?
- are there any “nuances” within the academy trust? For example, PFI contracts, inclusion of a special school, boarding provision, trading activities, subsidiaries etc?
- what is the governance structure? Academy trusts are exempt charitable companies, and more background information can be found in [academy trust governance: - structures and roles](#)
- which accounting system do you use?
- how is the finance function organised, for example is it centralised or devolved?
- how many audit meetings are required, including any additional meetings to those pre and post-audit?
- what are the meeting and audit preferences, for example remote/in person or a mix?

### **Key dates and deadlines**

What is the timescale for the procurement, including when tender documents will be issued, deadlines for queries and submission, when shortlisted firms will be notified, presentation date and decision date? The process may take at least a month from start to finish. To facilitate a good level of response it is important to allow sufficient time for each stage, including the time for firms to prepare their bid. It is also helpful to provide contact details for queries and submission of tenders.

### **Evaluation criteria**

It is best practice to set out for potential firms the criteria (and weightings, if applicable) on which they will be judged. It is important that the criteria are based on obtaining comprehensive and high-quality external audit services which provide value for money. The focus should not be on achieving the lowest price, as this may result in quality being compromised.

### **6.4 Key questions to ask potential firms**

#### **Experience**

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, you should also understand what experience the firm has in auditing charity accounts. Experience with other entities in the education sector (such as independent schools, FE/HE institutions etc) may also be helpful. You should establish the firm’s experience in dealing with other entities (including commercial clients) of a similar size.

## **The audit team**

As well as the experience of the firm, you should establish the individuals that will make up the audit team and their level of relevant expertise/experience. You should ask for relevant CV/profile information of applicable partners and senior members of staff and how they will ensure oversight of the audit team's work. The firm's approach to continuity of staffing is also important.

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

## **Value-added support**

Will the firm be able to offer a sufficient level of support to the academy trust relating to the audit, both during the audit and throughout the year?

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

## **Capacity and resources to take on and service new clients**

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

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 academy trusts. You should understand how the firm will deal with an unexpected incapacity of any member of the audit team, especially the responsible individual (the named person that signs off the audit report) and/or manager.

## **Quality assurance**

You should find out the firm's approach to quality assurance. This may include the results of external quality inspections of the firm, independent internal reviews and how any issues have been addressed, as suggested in the FRC's [audit quality practice aid for audit committees](#).

You may also be interested to know how the firm deals with rotation and succession of the responsible individual.

## **Data protection**

You should also ask about the firm's General Data Protection Regulation (GDPR) privacy policy and how they will ensure your data is protected.

## **The audit approach**

You should ensure firms explain their audit procedures, including their approach to materiality, view on audit risks, methods of communication, proposed timetable etc.

You should establish to what extent the firms will provide you with an overview of the planned scope and timing of the audit (usually in the form of an audit planning report) and a "deliverables list" or "information request", which provides you with a list of documents, which the audit team requires to complete the audit.

You should ask about how feedback will be given.

Auditors are required by International Standards on Auditing (ISAs) to communicate to the academy trust matters arising from the audit. These include their responsibilities in relation to the audit, planning, scope and timing of the audit and the significant findings from the audit (these are explained in more detail in the [framework and guide for external auditors](#)). The communication from the auditor is usually in the form of an audit findings report and it is important that it is presented in clear terms, so that trustees can take appropriate action to address any findings.

Examples of report templates for the audit planning report and audit findings report can be requested.

### **Fees/price**

You should ensure that fees are clearly outlined (including staff resource inputs and staff fee rates), stating what services are included and which are excluded.

### **Conflicts of interest**

You should identify and document any conflicts of interest at the beginning of the process. Auditors are required to be independent, and they have their own strict rules which they must follow, including FRC's [Ethical Standard](#). Potential conflicts of interest may arise in situations where the auditor is also providing additional (non-audit) services - the auditor must adhere to the Ethical Standard and consider the threats to objectivity and independence.

You should also note that the Ethical Standard states that a firm providing external audit to an entity shall not also provide internal audit services. To minimise threats to objectivity and independence in the internal scrutiny of academy trusts, ESFA considers that the term "internal scrutiny" must be viewed in the same way as internal audit.

Other examples of conflicts of interest are any relationship between a partner of a firm and a trustee of an academy trust, which would be a barrier to independence. Firms cannot undertake audits at an academy trust where anyone within that firm is a trustee at that academy trust. Also, any employee relationships between the firm and the academy trust should be carefully considered.

### **Request references**

You should ask for the names and addresses of relevant existing clients of the firm that you can talk to.

## **6.5 Additional information to ask for which may be relevant to your circumstances**

### **Financial standing**

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

### **Reliance on internal scrutiny work**

You may wish to ascertain the approach the auditor will take in its interaction and reliance on the work of the academy trust's internal scrutiny function.

## **7. Evaluating the quality and effectiveness of the auditor**

Audit and risk committees must assess the quality of the auditor and hence the effectiveness, to provide a basis for decisions by the academy trust's members about the auditor's reappointment, dismissal or retendering (as required by the [ATH](#)).

FRC suggest this assessment should be evidence-based and the primary source is likely to be the interaction between management, the audit committee and the auditors. Audit committees may wish to also seek input from those subject to the audit e.g. through a survey.

To help you assess the effectiveness of the service received you may wish to consider the following questions. You should discuss your responses with the auditor, as feedback in both directions helps to improve the service for subsequent years.

FRC has published an [audit quality practice aid for audit committees](#) and this document is referred to in this guide. Audit committees may find it useful to review the FRC publication when making their assessment.

### **7.1 Effectiveness of the process**

You should evaluate the effectiveness of the process, asking:

- did the audit run smoothly and to the agreed plan and 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 academy trust?
- if the auditor challenged management, did they have sufficient evidence to support the conclusion drawn?
- did the firm ensure attendance at appropriate meetings (for example, finance or audit committee)?
- have any previous concerns expressed by the audit committee on audit quality been responded to?

### 7.2 Auditor understanding and team

You should evaluate the level of auditor understanding and the effectiveness of the team, asking:

- did the auditor take time to understand the needs of the academy trust?
- have they taken time to explain any issues when they have arisen? Did they cater for your needs?
- did the firm send competent staff?
- were the staff thorough in their work, and how was their interaction with academy trust staff and trustees?
- was the partner engaged in the process?

### 7.3 Costs

You should review the costs, asking:

- were the audit fees charged in line with expectations?
- were there any unexpected additional costs?

### 8. Additional information sources

You might find the FRC's [auditing tenders notes on best practice](#) helpful.

## Key information as part of the audit procurement process

### Information provided by the academy trust to potential firms

#### Information about the academy trust

Number of schools	Last year	August 202X
Primary		
Secondary		
Special		
Other		

<b>Total income (202X estimate)</b>		
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Trading or other subsidiaries	Details
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Governance structure	
Accounting system used	
Accounts function	Centralised/Devolved/Mixture (provide details)

Services required	
External audit	Yes/No
Regularity engagement	Yes/No
Accounts return review	Yes/No
Pre and post audit meetings	Yes/No
Additional meetings (number)	0/1/2
Meeting preferences	Remote/in-person
Audit preferences	Remote/in-person/mix

Future plans affecting the structure/size/complexity of the academy trust

### General

Contact details for queries and submission of proposals.	
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Dates	
Tender issued	
Deadline for queries	
Latest time/date for submission	
Date short-listed tenderers notified about presentation to panel	
Presentations	
Decision notified	



## Evaluation criteria

The academy trust will select the best value for money tender (using a price: quality ratio) considering the following factors (not listed in order of importance):

- Technical expertise
- Commitment to working with the trust to enhance the service offered
- Cost
- Proven experience of working within the academies, education or charity sectors
- Bid quality/compliance

## Provided by potential firms to the academy trust

### Details of academy experience and credentials to take on this role

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### Details of your academy team - structure - number of team members etc and how continuity of the team will be achieved

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### Details of value-added support offered as part of the fee

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### Confirm how you will ensure you have the capacity to take on this assignment if selected

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### Details of your firm's quality assurance procedures and how you will protect our data

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**CVs and relevant experience of named audit partner, audit manager and other key staff**

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**Details of your audit approach and how this will be communicated.  
Examples of report templates for the audit planning report and audit findings report**

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<b>Fees</b>	<b>202X</b>	<b>202X+1</b>	<b>202X+2</b>
External audit			
Regularity engagement			
Accounts return review			
Pre and post audit meetings			
Additional meetings (number)			

**Additional reasons for selection – why choose us?**

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**Confirmation of no conflict of interests**

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**Names and contact details of two references**

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