

Academy schools – selecting an auditor

Schools that obtain Academy status will need to prepare financial statements annually to 31 August, and to have these audited. The appointment of an auditor to the school should be considered at an early stage.

Audited accounts will need to be filed with the Secretary of State and the Principal Regulator by 31 December each year, and with the Registrar of Companies by 31 May in the year following.

If your school already has auditors in place, you may wish to hold a competitive tender now to ensure you appoint the right firm for you as an Academy school.

The following approach should minimise the time and effort involved whilst maximising the chances of making an appointment that works for you.

Getting started – the review and selection panel

Identify the staff and Governors who will be part of the process and agree a reasonable time frame for completion. Whilst no audit firm likes to be 'bounced' into providing a quotation at very short notice, it is not a good idea to prolong the process by allowing too much time between each stage. A reasonable timeframe might be:

Stage	Week number
Launch invitation to tender	0
Meetings with prospective firms	2
Submission of proposals	4
Presentations from short listed firms	6
Decision on appointment	7

The selection panel should be willing and available – you will want to make a decision with the benefit of input from all participants in much the same way as you would with a recruitment selection panel.

Long list or short list?

You may choose to ask a long list of firms to express an interest in the appointment before issuing an invitation to tender. This can have the advantage of excluding those who really are not interested and also helps you to identify a shortlist of firms who have the right mix of skills and experience for you; however, the time taken to get a long list may be better spent in compiling a good shortlist instead.

How to select a shortlist? Have a clear idea of the sort of firm you wish to work with. An education sector specialist is essential but you may also want to consider size, single or multi-office, local or national and whether they are able to offer a wide range of other services. Canvass your Governors and others within your networking groups for recommendations. Aim to ask between four and six firms – more than this can make the process too cumbersome and less may not give you an adequate feel for the market.

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Some key items you may wish to consider are summarised below:

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Invitation to tender

Be as specific as possible in your invitation to tender. This will be a great help when comparing proposals. For example if you want to be able to compare the partner/staff "mix" contained within the fee quote, ask for this at the outset. Comparing proposals in the absence of consistent information may lead you to draw wrong conclusions.

The information that you request in the invitation to tender should include:

- **Executive summary**
 - a summary of the points of the tender
- **Proposed team and credentials**
 - details of the experience of the partner and manager
 - overview of the team roles
 - arrangements for ensuring continuity of personnel at all levels
- **Understanding your school**
 - An assessment of the school's needs and current issues
 - How the firm proposes to meet these needs and the benefits it will bring
- **Service approach**
 - The overall approach to the work, including an assessment of key risks
 - An outline timetable, covering the timing of the audit visit and closing meeting, and ensuring that filing deadlines are met
 - Communication with and reporting to the Governors
 - The approach to the reporting of findings from the audit
 - A summary of the key features and outputs of the audit approach
 - The approach to keeping you up-to-date on technical issues
- **Quality assurance and independence**
 - Overall approach to quality assurance
 - Potential conflicts of interest and how these are dealt with
 - Views on auditor independence and the scope of services provided by auditors
 - The approach to partner rotation and succession planning

• Fees/services

- Estimated breakdown of fees
- A breakdown of charge-out rates by relevant grade of personnel involved in the audit
- A detailed breakdown of hours between partner, manager and other staff
- The basis for agreeing fees in future years
- Proposed billing arrangements, for example, whether you will be billed "on account" or all at the end
- Fee rates for additional services
- Any 'value added' services such as VAT, direct tax or company secretarial 'health checks'

• Appendices

- Detailed audit approach
- Relevant experience of the firm
- A description of the firm

Key points to think about in advance are:

- size, location and 'reach' of firm – this information can be obtained from a firm's website but it is always interesting to see what firms say about themselves
- client base in the education sector – this should demonstrate the firm's experience of dealing with clients of a similar size and type
- proposed partner and manager with CVs – a good track record for team members is important
- audit approach – technically sound and with good value aspects
- fee quotation (personnel mix/hours/activity) and hourly rates
- other services provided – should be of relevance to you rather than simply a 'brochure' listing; and
- references – the willingness of a prospective firm to let you talk to current clients is very important.

If you have very specific needs that must be met by the audit firm, these should be stated prominently to enable firms that cannot meet this criteria to bow out if necessary at the bidding stage.

Pre-proposal meetings

Offer to meet with the firms before they submit a proposal. This is very important for the firms in tailoring their approach to your school and gives you the opportunity to meet the partner and possibly the manager in a setting that is less formal than the presentation. Ensure that all prospective firms have equal access to personnel and information including, if possible, a member of the Governing body.

Shortlist and presentation

You and your Governors may decide that all those who submit a proposal should also be given the opportunity to make a presentation. Alternatively you may wish to select two or more firms to take forward to the presentation stage. If you decide on the latter, early notification to the unsuccessful firms, with the offer of feedback, is very helpful.

Tell the firms making the presentations how much time they have and how long the question and answer session is likely to take. Confirm who will be on the panel and ask the firms to confirm who will be attending the presentation. Consider using a scoring system and common questions. Establish in advance who should ask what and make sure that every team member is asked a number of questions.

Decision time!

Be consistent in the criteria you apply when deciding between firms – as with a recruitment exercise, this is more likely to lead to a better decision and will give you information to feed back to the firms that request it. The criteria to apply should include the following:

- the extent to which the proposal and presentation demonstrate the team's understanding of your school
- the team's ability to be proactive and innovative
- whether the team demonstrates an ability to 'add value'
- the firm's approach to independence and identifying and managing conflicts of interest
- whether the price/quality of the fee quote represents value for money
- your rapport with the team members – do they inspire confidence and trust, and do you think you can work with them?

Post-appointment – short term

Formalities should be dealt with as quickly as possible.

- Notify both the successful and unsuccessful tenderers.
- The successful firm will need to carry out identification checks on Governors and staff in order to satisfy money laundering regulations. Do not be surprised to be asked for photo ID and possibly a utility bill!
- An engagement letter will be issued by the firm setting out the scope of the appointment – read this carefully before signing and if it is not in accordance with your understanding of the appointment query this straight away.
- If the appointed firm is to carry out non-audit services for you, expect separate engagement letters for each service, and also a letter setting out why the provision of these services should not present the firm with a significant conflict of interest.

Post-appointment – medium term

- Ensure you get what you were promised in the tender.
- Organise the dates for any free 'health check' visits (VAT, direct tax, company secretarial, etc.)
- Agree the audit timetable and fix a planning meeting date.

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Check lists for auditor appointment

Invitation to tender – information to request	
<input type="checkbox"/>	Experience of partner and manager
<input type="checkbox"/>	Overview of roles
<input type="checkbox"/>	Understanding of your school
<input type="checkbox"/>	Key risks and audit approach
<input type="checkbox"/>	Outline timetable
<input type="checkbox"/>	Communication with Governors
<input type="checkbox"/>	Findings from the audit (including management letter)
<input type="checkbox"/>	Technical issues – updates
<input type="checkbox"/>	Quality control
<input type="checkbox"/>	Potential conflicts of interest
<input type="checkbox"/>	Auditor independence
<input type="checkbox"/>	Fee breakdown (hours/personnel mix and charge rates)
<input type="checkbox"/>	Future fee increases
<input type="checkbox"/>	Additional service fees

Post-appointment	
<input type="checkbox"/>	Notification to tenderers
<input type="checkbox"/>	ID information request
<input type="checkbox"/>	Engagement letter(s)
<input type="checkbox"/>	Planning meeting
<input type="checkbox"/>	Overview of the audit approach
<input type="checkbox"/>	Audit timetable

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Littlejohn is an independent, top 30 firm of chartered accountants and business advisors. We have experience of auditing both schools and charitable trusts and are familiar with the day-to-day management and strategic issues facing schools in the current climate.

Our specialists have considerable knowledge of internal controls systems in place within schools. We are able to offer advice on setting up and maintaining appropriate financial controls systems to reflect the school's changed status as a result of its transition to an Academy.

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