



**GUIDANCE NOTE**  
**on**  
**How to review and choose your auditor**

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## Introduction

All cathedrals are required to have their accounts audited by a suitably qualified auditor. It is recommended that auditors are reviewed at least every five years. Chapters have a duty to consider if their audit services meet adequate standards and provide appropriate levels of assurance over the cathedral's financial affairs. This guidance note takes you through the steps required to tender for an auditor and some of the practical issues you may face.

## Why change?

There are many reasons to change auditor. The relationship between client and auditor is a special one and takes time to develop. However it can also lead to complacency on both sides with familiarity leading to lack of independence and reliance on a tired approach.

In the past, on occasions auditors were appointed purely because a member of the Chapter or staff knew an auditor personally or might have received good service from them in another area. Auditors audit a range of organisations and a person who is an expert on auditing banks or manufacturing companies may not be the right choice for a cathedral. On other occasions, a small local firm was appointed because it charged a low audit fee, and price was the most important consideration.

Your auditor should:

- Understand your operations - including the accounting and legislative framework
- Be independent
- Be aware of the most recent accounting regulations
- Have the resources to carry out an audit effectively
- Give you good value for money.

As the auditor/ client relationship is important and develops over time, short term appointments are not recommended. It is best practice to appoint an auditor for five years with the option to renew for a further five years, subject to satisfactory performance. However, no firm should be appointed for a period longer than 10 years without an enforced break in service to ensure a fresh approach and maintain independence<sup>1</sup>.

Sometimes a change may be proposed because the relationship at an individual level is not working out. This may be an appropriate reason to consider a change but Chapters should be wary of changing auditors purely on the basis that a member of the cathedral's staff suggests a breakdown in the relationship. The auditors should be invited to discuss and explain their point of view. There have been cases when a member of staff has proposed a change because a diligent auditor has asked too many awkward questions. In exercising proper stewardship Chapters should be aware of this rare but risky situation.

Each year, the Finance (and/ or Audit) Committee should consider the following questions:

- Are we getting value for money?
- Do our auditors have the ability to cater for our needs?

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<sup>1</sup> The ICAEW requires the lead engagement partner to have a maximum time in the role of five years with no return for five years. Any other key audit partner should be in the role for maximum of 7 years, with no return for two years. The audit firm needs to be large enough to comply with these rules or else the contract should be for a maximum of five years.

- Are they innovative and proactive?
- Is the audit team appropriate?

The answers to the questions may determine whether action is needed earlier or later.

### **What to expect from an auditor**

You should get more from an auditor than an audit report. You should not regard them as a statutory nuisance but part of the team. The auditor should be independent but understand the issues that exist within the organisation. Your auditor should provide a cost effective audit and use the most up-to-date techniques, not simply confirm the figures. The auditor should be relied on for constructive, impartial advice and be proactive and capable of lateral thinking. Proven charity accounting experience is essential - you do not want to pay for your auditor's learning curve.

### **How to go about the appointment process**

As the process of appointment can take three to six months, you should start it as soon as you can after the year end in order to be ready for the following year. You need time to:

- send out the invitations to tender;
- receive the firms' tender documents covering their experience and approach;
- shortlist and interview the candidates;
- appoint the new auditor; and
- enable the handover prior to the start of the next audit.

All a Chapter has to do to change auditor is to inform the existing auditor that there is a need to reconsider the appointment. You may or may not choose to invite them to tender. Once the selection is made they must resign so that you can appoint a new firm to fill the vacancy.

It is important to involve the right people in the selection process from the start. Chapters can decide who they wish to include in the selection panel but it is recommended that it include the Chair of the Finance Committee, the Chair of the Audit Committee if there is one, the Administrator and the cathedral's head of finance. The panel should include technically competent people who can review the tender documents and ask technical questions at the interview stage. Chapters must be confident that they can accept the panel's recommendation to appoint a new auditor.

The Chapter and selection panel must decide what sort of audit firm is wanted:

- Do you need other services such as specialist VAT and tax advice, and financial management assistance?
- Do you need a 'big name' to fit in with your image or to reassure potential donors?

The Chapter and selection panel must also be alert to the self-review threat which occurs when an audit firm, or an individual audit team member, is put in a position of reviewing subject matter for which the firm or individual was previously responsible, and which is significant in the context of the audit engagement. A larger firm is more likely to have the personnel to keep audit separate from other services.

For example the threat will arise if: a member of the audit team is, or has recently been, a director, officer or other employee of the audit client in a position to exert direct and significant influence over the subject matter of the audit engagement; the same firm performs services for an audit client that directly affect the subject matter of the current, or a subsequent, audit engagement; and the same firm prepares original data used to

generate financial statements or prepares other records that are the subject matter of the audit engagement.

### **Invitations to tender**

It is best practice to go out to tender to select a new auditor; by doing so it is possible objectively to compare auditor firms against set criteria. There is no single best method to follow, but the recommended approach is to send a brief letter (no more than one side) inviting the firms to tender along with the most recent annual report and accounts. An example letter is included as an appendix to this guidance note. The letter should include practical information but should not feed too much information to the audit firm - it should be up to the auditors to decide what they need to know to be able to make a satisfactory proposal. They should be allowed to visit the cathedral to meet relevant people in order for them to put together a *formal written tender* which should explain their audit approach, list their charity clients and provide details of the audit partner and audit manager specific to the assignment. How the audit firm goes about the audit tender and the sort of questions it asks can provide a good indicator of how they are likely to deal with your audit.

The proposal should also provide an indication of the fees and proposed structure for charging for other advice, though you may only want to look at the fees once you have shortlisted candidates so you make your choice on the basis of quality and service expertise. Fees can either be a fixed fee quote based on certain assumptions or on the basis of time spent on the audit. It is important to understand fully what value for money you are getting from each proposal. A more experienced firm may spend less time on an audit but provide greater benefits and consequently greater value for money. An experienced auditor alert to the issues facing the cathedral will be able to give constructive advice on taxation, management issues, financial controls, structure, tax planning, strategy and other matters which will come to their notice through the processes of carrying out an effective audit. It is always possible to negotiate the level of fees but bear in mind the service you will get for that fee level. Do not select on the basis of fees alone - a cheap audit may be more expensive in the long term. Also, be aware that a "lowball" bid may be made. Consider other comparable cathedrals and charities audited and check how much they are paying. Most of the specialist firms are able to assess the cost of an audit. If one firm is very much lower than another, the reasons why should be ascertained.

The selection panel may wish to shortlist on the basis of the tender document alone before interviewing the shortlisted candidates. Personal chemistry is important so the interview is a good opportunity to test whether the audit team is a good fit with the cathedral. You will need to know who the audit partner is who will sign the audit report and which audit manager will manage the day-to-day audit. Asking them to prepare a draft audit plan is an excellent way of showing how they will go about their audit - this gives an idea of the quality and nature of reports they will be presenting to you.

Any appointment must be made by the Chapter, though it is acceptable to inform the successful auditor of the selection panel's recommendation and that an appointment will be made subject to approval by Chapter. This allows for early audit planning and time for a handover from the previous auditor.

## Questions for auditors

There is a minimum level of assurance that is required - in relation to qualifications, technical ability and relevant experience. Any questions should search for evidence to back up the answers. Do not be afraid to ask more technical questions and sometimes the most blindingly obvious question can throw up the most interesting answers.

- ***Experience of charity/ cathedral sector***  
Does the auditor have experience of auditing charities of a similar size to the cathedral's operations? Does the firm have knowledge of the Charity SORP and Charities Act 2011 as well as relevant Charity Commission guidance on governance, taxation etc. and can it provide additional resources/ guidance on emerging issues? Can the auditor comment on the differences between the Accounting Regulations for Cathedrals and the Charity SORP?
- ***Audit firm***  
Does the audit firm have a good reputation within the sector? Can it provide references from relevant clients? Has the auditor provided information about its professional ethics policies and processes for maintaining independence? Do they have any conflicts of interest? Do they provide any non-audit services that are relevant to the cathedral?
- ***Audit team***  
What levels of staff will be involved throughout the engagement? What is their experience and expertise? Are they available to answer ad hoc enquires throughout the year? How big will the audit team be and how much time will they need to spend on site? How much contact will there be with the audit partner and manager?
- ***Fees***  
Is there a clear fee structure? What is included and what isn't? What circumstances would cause additional fees to be charged? How would fees be increased in future years?
- ***Communication with Finance (and/ or Audit) Committee and Chapter***  
How often and how would they expect to communicate with the Finance (and/ or Audit) Committee and Chapter? Can they provide a sample audit plan and a sample audit management report?
- ***Adding value***  
What else can the auditor bring to the cathedral? Does the audit partner have a wider understanding of non-audit issues, e.g. tax, strategic planning, change management, trading, charity and/ or ecclesiastical law, and governance, and how can this knowledge base be used to help the cathedral?

Cathedrals should consider not just value for money (the three Es of effectiveness, efficiency and economy) but another three Es, empathy, expertise and enthusiasm. Does the proposed auditor have them?

## **Ongoing monitoring**

It is important to meet with the auditor after each audit to discuss the relevance and quality of service you have had from them. This way any small issues can be easily resolved. Several criteria can be used to measure the effectiveness of auditors:

- Timeliness in meeting deadlines;
- Quality of reports;
- Constructive challenge;
- Usefulness and practicality of recommendations;
- Quality assurance received by Chapter and Finance Committee, and, if relevant, Audit Committee;
- Level of thoroughness in their work;
- Reasonableness of fees.

## APPENDIX

### EXAMPLE TENDER LETTER

Dear [name]

#### Invitation to tender

I have pleasure in inviting you to tender for the provision of audit services to [XXXX] Cathedral commencing with the audit for the year ended 31 December 20[XX]. If you decide to take part [number] copies of your formal tender document need to be with me by 5.00pm on [date] together with a further copy in electronic format (please send to [email address]). Your written tender must be no more than twenty pages long (including appendices).

To provide you with some background, I enclose a copy of our published accounts for 20[XX]. You may also wish to meet with key members of staff to gather further information - if so please make arrangements via [name] who can be contacted at [contact details].

Please note the appointment will be for a period of five years, with the option to renew for a further five years subject to satisfactory performance. [We have determined that no firm should be appointed for a period longer than 10 years without an enforced break in service and this means that our current auditors have not been invited to participate in this tender process.] We will be inviting shortlisted firms to make a formal presentation to [the selection panel] [members of the Chapter] on [date]. The formal presentation will last no more than one hour but it is important that the team making the presentation comprises those people who will be providing the service to the Cathedral.

The formal decision as to the appointment will be made on [date] and the successful firm will be notified immediately thereafter.

If you have any questions relating to the above please let me know.

I look forward to hearing from you and receiving your formal tender in due course.

Yours sincerely