

2010/11 opinion **audit - changes** **you can expect** **to see**

Suffolk County Council

Audit 2010/11

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Purpose of this document

1 As your appointed auditor, the audit of the financial statements I deliver to you, are governed by International Standards on Auditing (ISAs). These standards prescribe the basic principles and essential procedures, with the related guidance, which govern my professional conduct as your auditor.

2 As with all guidance and frameworks, auditing standards are revised and updated, often in a piecemeal fashion. However, in 2009 the auditing profession completed a comprehensive project to improve the clarity of all the ISAs. This is known as the Clarity Project.

3 One of the main objectives of the Clarity Project was to promote greater consistency of application between auditors. This has been done by reducing the ambiguity within existing ISAs and improving their overall readability and understandability.

4 The new clarified framework will apply to my audit of your 2010/11 financial statements. Because of the new standards, you can expect to see some changes in the way my audit team delivers your audit and the information they seek from you. The purpose of this document is to highlight to you the main changes and how they will impact you.

5 In summary the main changes you will see cover:

- journals;
- related party transactions;
- accounting estimates;
- group accounts; and
- reporting deficiencies in internal control.

Impact of the main changes

Journals

6 ISA (UK&I) 330 (The Auditor's response to assessed risks), requires me to review all material year-end adjustment journals. I can do this by using interrogation tools such as CAATs (Computer aided audit techniques), IDEA software or excel, depending on the compatibility of your general ledger software. My Audit Manager will discuss a suitable approach to this work soon.

Related party transactions

7 ISA (UK&I) 550 (Related parties) requires me to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. I will also review minutes and correspondence for evidence of related party transactions and carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

Accounting estimates

8 ISA (UK&I) 540 (Auditing Accounting Estimates, Including Fair Value Accounting Estimates, And Related Disclosures) requires me to look at your accounting estimates in detail. As part of my audit I will request a list of these from you. I will need to know in particular:

- the process you use to make your accounting estimates;
- the controls you use to identify them;
- whether you use an expert to help you in making the accounting estimates;
- whether any alternative estimates have been discussed and why they have been rejected;
- how you assess the degree of estimation uncertainty (this is the uncertainty arising because the estimate cannot be precise or exact) ;
and
- the prior year's accounting estimates outcomes, and whether there has been a change in the method of calculation for the current year.

Group accounts

9 ISA (UK&I) 600 (Special Considerations - Audits of Group Financial Statements) introduces some new audit procedures for group auditors. Because of the changes, you will see an increase in communication between yourselves, me and other entities within the group. I will also need to know:

- the controls involved in the group, for example, accounting policies used or how you manage different year ends;
- what is involved in the consolidation process; and
- whether any other auditors are used to audit part of the group.

Deficiencies in internal control

10 ISA (UK&I) 265 (Communicating Deficiencies In Internal Control To Those Charged With Governance And Management) is a new standard.

11 If I identify a deficiency in any of your internal controls during the audit, I will undertake more audit testing to decide whether the deficiency is significant. If I decide the deficiency is significant, I will report it in writing to your Audit Committee as those charged with governance.

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