

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

Bath and North East Somerset Council

Audit 2010/11

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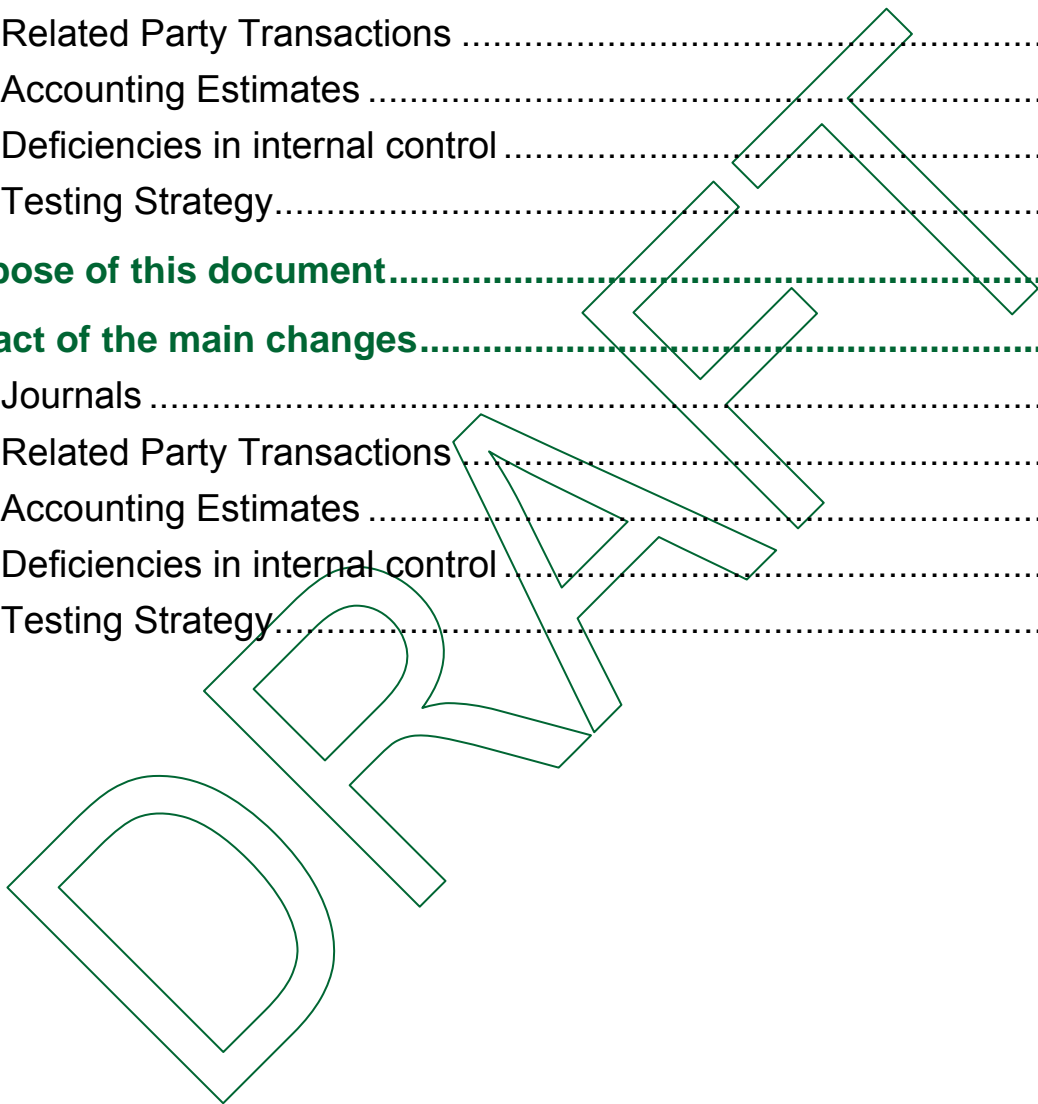
The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

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As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

Contents

Purpose of this document	2
Impact of the main changes	3
Journals	3
Related Party Transactions	3
Accounting Estimates	3
Deficiencies in internal control	4
Testing Strategy.....	4
Purpose of this document	2
Impact of the main changes	3
Journals	3
Related Party Transactions	3
Accounting Estimates	3
Deficiencies in internal control	4
Testing Strategy.....	4



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;
- Reporting deficiencies in internal control; and
- Testing strategy.

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.

Deficiencies in internal control

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

10 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 the Corporate Audit Committee as those charged with governance.

Testing Strategy

11 ISA (UK&I) 330 (The Auditor's response to assessed risks), requires me to undertake tests of detail on all material account balances and classes of transactions. Previously I have been able to rely to a greater extent on assurance from testing controls over financial systems. Now I am required to undertake tests on the substance of transactions for all material areas.

12 ISA (UK&I) 320 (Materiality in planning and performing an audit) requires me apply a lower level of materiality, compared to previously, when I identify the account balances and classes of transactions that require testing.

13 These two requirements will increase the amount of work I will undertake.

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