

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

**Cheshire East 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, is 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 professional 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; 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.

## 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 your Audit & Governance Committee as those charged with governance.

# Appendix 1 Letter to management



January 2011

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Dear Lisa

## **Audit of Cheshire East Borough Council Financial Statements - Clarified International Standards on Auditing (ISAs)**

The completion of the Clarity Project in 2009 resulted in 36 newly updated and clarified ISAs which come into effect for the audit of the 2010/11 financial statements. In order to comply with these clarified ISAs, I am required to obtain an understanding of your processes and controls for identifying related party transactions and accounting estimates.

### **ISA (UK&I) 540 – Auditing accounting estimates, including fair value accounting estimates, and related disclosures**

ISA (UK&I) 540 requires me to look at your accounting estimates in detail. I will need a list of your accounting estimates, together with an understanding of the process followed to identify all required estimates. For each estimate I need to know:

- the method, including where applicable the model, used in making the accounting estimate;
- the controls and checks on the process;
- whether an expert has been used to assist in making the estimate;
- the assumptions underlying the estimate;
- alternative estimates considered and why they have been rejected;
- how the effect of estimation uncertainty has been assessed;
- whether there has been a change in the methods for making the accounting estimates from last year and if so why.

### **ISA (UK&I) 550 – Related parties**

ISA (UK&I) 550 requires me to review your procedures for identifying related party transactions. I need to understand in particular:

- who you consider your related parties to be, including any changes to last year
- the controls you have in place to ensure all relevant related parties and transactions are identified and disclosed appropriately
- any specific controls to authorize significant transactions
- the controls in place to authorize and approve significant transactions and arrangements outside the normal course of business.

For each related party identified, can you tell me:

- The nature of the relationship between the Council and the related party
- Whether there have been transactions with the related party in the year, and if so, the type and purpose of the transactions

Please contact me if you wish to discuss anything in relation to this request.

Yours sincerely

Judith Tench  
Engagement Lead



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