

External Audit Update

Service Director: Kevin Nacey, Director of Finance and Performance

Lead Officer: Martin Gerrish, Strategic Manager – Financial Governance

Author: Martin Gerrish, Strategic Manager – Financial Governance

Contact Details: tel (01823) 355303 or e-mail: mgerrish@somerset.gov.uk

Cabinet Member: Mr Harvey Siggs

Division and Local Member: All

1. Summary/link to the Annual Plan

- 1.1. The 2 reports attached as Appendices are from Grant Thornton, our External Auditors, and our responses to audit questions that they have already asked.

These comprise their Audit Plan for our Statement of Accounts and Value For Money for 2016/2017 (Appendix A) and their regular Committee Update on progress (Appendix B). These reports also include the key emerging national issues that Somerset County Council will need to consider carefully in both its Statement of Accounts work and in its on-going governance arrangements.

As was started last year, to be publically transparent and to keep members informed about our on-going work with Grant Thornton, we have again included responses from the Director of Finance and Performance (Appendix C) and the Chair of Audit Committee (Appendices D and E) in response to the auditor's "ISA 240" fraud query.

- 1.2. Staff from Grant Thornton will attend the Audit Committee meeting to take members through the documentation.

2. Issues for consideration

- 2.1. Members are asked to:-

- i) Comment on the External Auditors' Plan for the forthcoming audit process and their understanding of the County Council's business (Appendix A).
- ii) Consider the progress made to date by the External Auditors in the Audit Committee Update report and the interim findings (Appendix B).
- iii) Consider whether they wish to have any further information provided on any of the emerging topics referred to in the Audit Committee Update report (Appendix B).
- iv) Consider the responses by the Director of Finance and Performance (Appendix C), and the Audit Chair (Appendix D and E) in relation to SCC's anti-fraud arrangements, and whether these responses accord with their own understanding.

3. Background

- 3.1. Grant Thornton is our external auditor. Much of their work is concentrated on the Statement of Accounts and Value For Money conclusions, which directs their efforts as set out in the attached reports. The planning stage of the audit work is critical to a successful audit cycle.
- 3.2. Regular meetings with our external auditors and early sight of their forthcoming Audit Plan has always been appreciated, as it allows officers to understand the audit needs and prepare papers as required. It has also allowed officers to discuss potential emerging accounting treatments with the external auditor.
- 3.3. Under the International Standard on Auditing 240 (ISA 240), the external auditor has a responsibility relating to fraud in an audit of financial statements.

Misstatements in the financial statements can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the financial statements is intentional or unintentional. Although fraud is a broad legal concept, for the purposes of ISA 240, the auditor is concerned with fraud that causes a **material misstatement** in the financial statements.

The primary responsibility for the prevention and detection of fraud rests with both “those charged with governance” of the entity, and with management. As part of the audit, the external auditor will therefore request responses from the Director of Finance and Performance and the Chair of Audit Committee to gain assurance that they “**place a strong emphasis on fraud prevention**”. Clearly from the responses included, both do.

4. Consultations undertaken

- 4.1. The Audit Plan and interim work is shared with key officers at a 6 weekly meeting, and is discussed regularly by the Finance and Performance Management Team. This is seen as highly beneficial to both parties.

5. Implications

- 5.1. All as contained within the Grant Thornton report.

6. Background papers

- 6.1. Previous Audit Committee papers.

Note For sight of individual background papers please contact the report author