

Hampshire County Council

Audit Services

Service Level Agreement

With

Hampshire Fire and Rescue Authority



Hampshire
County Council

March 2011

Introduction

This agreement specifies the service that the Audit Services section of Hampshire County Council will provide for Hampshire Fire and Rescue Authority. This service level agreement does not contain any element relating to the provision of IT systems or their charging as these are subject to a separate service level agreement with the CCBS department of Hampshire County Council.

The levels of service indicated are those which are estimated and agreed will best meet the needs of Hampshire Fire and Rescue Authority.

Significant variation in the level of service will be subject to further negotiation.

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Audit Services

1 Overview

- 1.1 Audit Services, as the appointed internal auditor, is responsible for conducting an independent appraisal of all Hampshire Fire and Rescue Authority's activities, financial and otherwise. It should provide a service to the whole of the Authority, including the members and all levels of management within the Authority. It is not an extension of, nor a substitute for, good management of the Authority although it can have a role in advising those with management responsibilities.
- 1.2 Audit Services is also responsible for giving assurance to the members of the Authority and the Chief Officer on the adequacy and effectiveness of the Authority's risk management, control and governance processes. Audit Services assists managers by evaluating and reporting to them the effectiveness of the controls for which they are responsible. This work contributes to the opinion that Audit Services provides on risk management, control and governance processes.
- 1.3 It remains the duty of management within the Authority, not Audit Services, to operate adequate systems of risk management, control and governance. It is for the Authority's management to determine whether or not to **act on internal audit findings** and to recognise and accept any risks of not taking action.

2 Scope

- 2.1 All the Authority's activities, funded from whatever source, fall within the remit of Audit Services. Audit Services may consider the adequacy of controls necessary to secure propriety, economy, efficiency and effectiveness in all areas. It will seek to confirm that Hampshire Fire and Rescue Authority management has taken the necessary steps to achieve these objectives and manage the associated risks. The scope of Audit Services' work shall cover operational and management controls and shall not be restricted to the audit of systems and controls necessary to form an opinion on the financial statements. Audit Services shall devote particular attention to any aspects of risk management, control and governance processes affected by material changes to the Authority's risk environment.
- 2.2 The systems of control subject to Audit Services' work also shall include those systems of control operated by:
 - all the Authority's subsidiary or associated companies
 - partnership arrangements, unless contract arrangements specifically assign this responsibility to the internal audit providers of other partners within the agreement
 - contractors of Hampshire Fire and Rescue Authority who provide any service that handles or processes the Authority's finances or management information in any form.

- 2.3 It is not within the remit of Audit Services to question the appropriateness of policy decisions. However, Audit Services is required to examine the arrangements by which such decisions are made, monitored and reviewed.
- 2.4 Audit Services may also conduct any special reviews requested by the members of the Authority, Governance Committee or Chief Officer, provided such reviews do not compromise Audit Services' objectivity or independence, or the achievement of the approved audit plan.

3 Responsibilities

3.1 The Chief Internal Auditor is required to give an annual opinion to the members of the Authority, through the Governance Committee, on the adequacy and effectiveness of the Authority's risk management, control and governance processes. The Chief Internal Auditor shall also comment on other activities for which the members of the Authority are responsible, and to which Audit Services has access. This assurance is also required in support of:

- the Treasurer's Section 151 responsibilities under the Local Government Act 1972, which require them to make arrangements for the proper administration of the Authority's financial affairs
- the Monitoring Officer's responsibility for annually reviewing the effectiveness of, and compliance with the County Council's Code of Corporate Governance.

3.2 Audit Services fulfils its remit through review and evaluation of risk management, control and governance processes. These comprise the policies, procedures and operations in place to:

- establish and monitor the achievement of the Authority's objectives
- identify, assess and manage the risks to achieving the Authority's objectives
- advise on, formulate, and evaluate policy, within the responsibilities of the Treasurer as accounting officer
- ensure the economical, effective and efficient use of resources
- ensure compliance with established policies, procedures, laws and regulations
- safeguard the Authority's assets and interests from losses of all kinds including those arising from fraud, irregularity and corruption, and
- ensure the integrity and reliability of information, accounts and data, including internal and external reporting and accountability processes.

4 Standards and approach

4.1 Audit Services' work will be performed with due professional care, in accordance with the standards and requirements of the Chartered Institute of Public Finance and Accountancy's Code of Practice for Internal Audit in Local Government in the United Kingdom. The work shall comply in all material respects with these recognised auditing standards. Audit Services shall also have regard to advice provided by professional auditing and accountancy bodies.

- 4.2 The Chief Internal Auditor shall implement procedures to monitor the effectiveness of the service and compliance with standards. The Chief Internal Auditor shall prepare a set of performance measures and criteria for the internal audit function, which shall be agreed with the Governance Committee.
- 4.3 In achieving its objectives, Audit Services shall develop and implement an audit strategy that assesses the Authority's risk management, control and governance processes.

5 Independence

- 5.1 Audit Services has no executive role, nor does it have any responsibility for the development, implementation or operation of systems. However, it may provide independent and objective advice on risk management, control, governance processes and related matters, subject to resource constraints. For day to day administrative purposes only, the Chief Internal Auditor reports to senior officers within the Authority and the reporting arrangements must take account of the nature of audit work undertaken. The Chief Internal Auditor has a right of direct access to the chair of Hampshire Fire and Rescue Authority, the chair of the Governance Committee and the Chief Officer.
- 5.2 The Governance Committee shall advise the members of the Authority on all matters concerning internal control. Within Hampshire Fire and Rescue Authority, responsibility for the Authority's risk management, control and governance processes rests with the members of the Authority and management, who shall ensure that appropriate and adequate arrangements exist without relying on internal audit. To preserve the objectivity and impartiality of Audit Services' professional judgement, responsibility for taking action in respect of internal audit findings rests with the Authority's management.

6 Access and liaison

- 6.1 Audit Services shall have unrestricted access to all documents, records, assets, personnel and premises of the Authority and its companies, and be authorised to obtain such information and explanations as they consider necessary to form their opinion.
- 6.2 In turn, Audit Services agrees to comply with any requests from the Authority's external auditors for access to any information, files or working papers obtained or prepared during audit work that they need to discharge their responsibilities as the financial statements auditors.
- 6.3 Audit Services shall liaise with the Authority's external auditors to enhance the level of service it provides to the Authority's management.

7 Reporting

- 7.1 Audit Services shall prepare, before the beginning of the year, a long-term strategy document supported by an assessment of resource needs and an annual audit plan. The strategy report shall be submitted to the Governance Committee for approval following consultation with relevant managers and the Chief

Officer. The annual audit plan shall be approved by the Treasurer after consultation with the Chief Officer and copied to the Governance Committee.

- 7.2 Audit Services produces its reports, in writing, usually within three weeks of completion of each audit, giving an opinion on the area reviewed and highlighting issues requiring management attention. The designated managers of departments or services shall be required to respond to each audit report, usually within one month of issue. In their response, they shall state, their proposed actions to bring identified risks within acceptable parameters, the person responsible for those actions and a date by which action will be completed. Proposed actions shall be prioritised. Copies of all reports are also provided to the Chief Officer via the Performance Review Manager. Management actions will be tracked by internal audit to implementation or as occasionally happens in times of rapid change, to obsolescence.
- 7.3 The Chief Internal Auditor is accountable to the Treasurer and the members of the Authority through the Governance Committee for the performance of internal audit. The Chief Internal Auditor shall keep the Chief Officer informed of audit results and draw the attention of the Governance Committee to significant findings and proposed management actions. This will be done by providing the Governance Committee with a summary of key issues on a quarterly basis.
- 7.4 The Chief Internal Auditor submits an annual report to the members of the Hampshire Fire and Rescue Authority and Chief Officer through the Governance Committee, based on the Authority's financial year. This gives an opinion on the adequacy and effectiveness of the Authority's risk management, control and governance processes and on the arrangements for securing economy, efficiency and effectiveness.
- 7.5 The Chief Internal Auditor's annual report to the members of the Authority shall include:
- a statement of the overall adequacy and effectiveness of the Authority's risk management, control and governance processes
 - any qualifications to that opinion, together with the reasons for the qualification
 - a notice of any issues that the Chief Internal Auditor judges relevant to the preparation of the Statement of the Responsibilities of the Members of the Hampshire Fire and Rescue Authority or Annual Governance Statement such as an analysis of common or significant weaknesses or details of any major internal audit findings where action appears to be desirable but has not been taken
 - a comparison of Audit Services' activity during the year with that planned
 - a summary of the performance of the internal audit function against its performance measures and criteria
 - comment on compliance with the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom, and
 - the results of Audit Services quality assurance programme.

7.6 The Chief Internal Auditor reviews the annual report with the Treasurer, the Chief Officer and Governance Committee prior to publication.

8 Irregularities, including fraud and corruption

8.1 Audit Services shall without delay report to the Chief Officer and Chairman of the Governance Committee, serious weaknesses, significant fraud, major accounting and other breakdowns.

8.2 The Chief Internal Auditor shall be informed when evidence of potential irregularity, including fraud, corruption or any impropriety, is discovered so that they can:

- consider the adequacy of the relevant controls
- evaluate the implication of the fraud on the risk management, control and governance processes, and
- consider making recommendations as appropriate.

8.3 The role of Audit Services is not to commence the investigation of an irregularity unless requested to do so by the Chief Internal Auditor or Monitoring Officer.

9 Working in partnership

9.1 Management within the Authority can help to ensure the smooth running of the service provided by:

- being available to discuss the audit needs assessment on an annual basis
- keeping Audit Services informed of major issues which may affect the audit plan
- being available at the start of each visit to discuss the scope and objectives of the audit and any particular concerns
- ensuring that adequate desk space is available for each auditor on site, with secure storage facilities for audit working papers during the site visit and access to a telephone and a photocopier
- ensuring that key staff, records and systems are available at each visit / review
- being available at the end of each visit / review to discuss findings and the requirement for management action
- confirming the factual accuracy of a draft report and providing a management response to all findings before the final report is issued to the Chief Officer and head of department or service
- notifying Audit Services of all suspected cases of fraud or irregularity
- providing Audit Services with copies of plans and reports issued by the Authority's external auditors
- notifying Audit Services of Governance Committee meeting dates and providing papers in advance.

10 Confidentiality and Freedom of Information

10.1 *For the purposes of this clause, the following words and expressions shall have the following meaning:*

“Commercially Sensitive Information” means information that constitutes a trade secret;

“Confidential Information” means any information which has been designated as confidential by either Party in writing or that ought to be considered as confidential (however it is conveyed or on whatever media it is stored) including information which relates to the business, affairs, properties, assets, trading practices, developments, trade secrets, Intellectual Property Rights, know-how, personnel, customers and suppliers of either Party, all personal data and sensitive personal data within the meaning of the Data Protection Act 1998 and the Commercially Sensitive Information;

“EIR” means the Environmental Information Regulations 2004;

“FOIA” means the Freedom of Information Act 2000 and any subordinate legislation made under this Act from time to time together with any guidance and / or codes of practice issued by the Information Commissioner in relation to such legislation;

“Information” has the meaning given under section 84 of the Freedom of Information Act 2000;

“Requests for Information” shall have the meaning set out in FOIA or any apparent request for information under the FOIA or the EIR.

10.2 Confidentiality

Subject to the Freedom of Information Act, each Party shall treat all Confidential Information belonging to the other Party as confidential and safeguard it accordingly except as required by law or as reasonably required in order to carry out the Contract. Confidential documents includes but is not limited to those shown at Annex A.

10.3 Freedom of Information

i) The Party acknowledges that the other Party is subject to the requirements of the FOIA and the EIRs 2004 and each Party shall assist and co-operate with the other (at their own expense) to enable the other Party to comply with these Information disclosure obligations.

ii) Where a Party received a Request for Information in relation to Information which it is holding on behalf of the other Party, it shall (and shall procure that its sub-contractors shall) :-

(a) transfer the Request for Information to the other Party as soon as practicable after receipt and in any event within three working days of receiving a Request for Information;

- (b) provide the other Party with a copy of all Information in its possession or power in the form that the other Party requires within ten working days (or such other period as the client may specify) of the Client's requesting that Information; and
 - (c) provide all necessary assistance as reasonably requested by the Client to enable the Client to respond to a Request for Information within the time for compliance set out in Section 10 of the FOIA.
- iii) Where a Party receives a Request for Information which relates to the Contract, it shall inform the other Party of the Request for Information as soon as practicable after receipt and in any event with two Working Days before disclosure.
- iv) Where a Party determines that Information (including Confidential Information) must be disclosed pursuant to Clause (iii) it shall notify the other Party of that decision at least two Working Days before disclosure.
- v) Each Party shall be responsible for determining at its absolute discretion whether the Commercially Sensitive Information and / or Information:-
 - (a) is exempt from disclosure under the FOIA or the EIR;
 - (b) is to be disclosed in response to a Request for Information.
- vi) Each Party acknowledges that the other Party may be obliged under the FOIA or the EIR to disclose Information:
 - (a) without consulting with the other Party, or
 - (b) following consultation with the other Party and having taken its views on account.

11 Ownership of documentation

- 11.1 Audit Services' files and working papers, which demonstrate compliance with the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom, are the property of Hampshire Fire and Rescue Authority.
- 11.2 Audit Services' data retention policy on the archiving and secure destruction of audit files requires that all audit files are retained for a period of four years (three years plus the current year) except for those papers used in the course of a fraud investigation which will be retained for a period of six years after legal proceedings have been completed. An annual programme is in place for the secure destruction of files once this time has elapsed. This policy will be applied to the Authority's files unless alternative arrangements are agreed in writing and arrangements are made for the suitable transfer of files to the Authority after the relevant period has elapsed.

12 Electronic communication

- 12.1 During the engagement Audit Services and the Authority may from time to time communicate electronically with each other. However, the electronic transmission of information cannot be guaranteed to be secure or free of viruses or error and such information could arrive late or incomplete, be intercepted,

corrupted, lost, destroyed, or otherwise be adversely affected or unsafe to use. No systems or procedures can guarantee that transmissions will be unaffected by such hazards.

- 12.2 Audit Services and the Authority confirm that each accepts the risks of electronic communications between each other. Each agrees to use commercially reasonable procedures to check for the most commonly known viruses before sending information electronically. Each shall be responsible for protecting its own systems and interests in using electronic communications. Audit Services and the Authority shall have no liability to each other on any basis, whether in contract, tort (including negligence) or otherwise, in respect of any error, damage, loss or omission arising from or in connection with the electronic communication of information between each other and the reliance on such information.

13 Indemnity and Insurance

- 13.1 Audit Services' professional indemnity cover is provided through Hampshire County Council and is sufficient to meet all eventualities in respect of external contract arrangements up to the sum of £10 million. Audit Services will indemnify the Authority against claims and costs arising from its negligence or wilful breach of any obligation under this agreement provided that its maximum liability shall not exceed £10 million.

14 Fees

- 14.1 The fees for internal audit work will be agreed in advance of each financial year to reflect the number and mix of days required and movements in cost base.
- 14.2 If specific assignments are requested in addition to the annual plan, fees will be agreed in advance based on the staff mix required.

15 Payment

- 15.1 Audit Services will:-
- invoice in advance at the beginning of the financial year for 50% of the agreed planned audit days
 - invoice in arrears at the end of the financial year for the remaining planned audit days, adjusted for any audit days which have not and will not be delivered.
- 15.2 Undelivered planned days relating to work in progress will be kept to a minimum and will be delivered as soon as possible at the start of the next financial year.
- 15.3 Any planned audits which are not in progress by the end of a financial year will not be invoiced and will be included within the following years audit plan or postponed as required. These and any other variations to the audit plan will be agreed between Audit Services and the Authority throughout the year as required.

16 Complaints

- 16.1 In the event the Authority has a complaint regarding the service provided by Audit Services the Authority should:
- try to resolve the matter with the lead auditor in the first instance or with their Audit Manager,
 - if the matter remains unresolved then you should contact the Chief Internal Auditor,
 - should this fail to resolve the problem, or you would prefer to raise the matter more formally you should contact the Deputy County Treasurer or County Treasurer.

17 Review of the service level agreement

- 17.1 This service level agreement will be reviewed periodically to ensure that it remains in line with relevant guidance and any changes will be agreed by both parties.

18 Agreement of terms

- 18.1 On behalf of Audit Services, I confirm the above terms in respect of Hampshire Fire and Rescue Authority:

Signed:

Name: Karen Shaw

Position: Chief Internal Auditor

Date: March 2011

- 18.2 On behalf of the Hampshire Fire and Rescue Authority, I confirm the above terms in respect of Hampshire Fire and Rescue Authority:

Signed:

Name: Councillor R McIntosh

Position: Chairman of Hampshire Fire and Rescue Authority Governance Committee

Date: March 2011

Annex A - Schedule of confidential documents

Confidential documents include:

- Contract documentation
- Strategic audit plans
- Audit/client correspondence
- Audit reports
- Audit working papers
- Audit committee reports and papers
- Client's plans, reports and correspondence provided to Audit Services

Exemptions to the schedule of confidential information:

- Information which is or becomes public knowledge (otherwise than breach of this condition)
- Information which is received from a third party who lawfully acquired it and who is under no obligation restricting its disclosure
- Information which is independently developed without access to confidential information