

Appendix C

Terms of Reference for the provision of Internal Audit Services to Hampshire County Council

- 1 Internal audit is responsible for conducting an independent appraisal of all Hampshire County Council's (the County Council) activities, financial and otherwise. It should provide a service to the whole County Council, including the members of the County Council and all levels of management within the County Council. It is not an extension of, nor a substitute for, good management of the County Council although it can have a role in advising those with management responsibilities.
Internal audit is also responsible for giving assurance to the members of the County Council and Chief Officers on the adequacy and effectiveness of the County Council's risk management, control and governance processes. Internal audit assists managers within the County Council by evaluating and reporting to them the effectiveness of the controls for which they are responsible. This work contributes to the opinion that internal audit provides on risk management, control and governance processes.
It remains the duty of management within the County Council, not internal audit, to operate adequate systems of risk management, control and governance. It is also for the County Council's management to determine whether or not to accept audit recommendations and to recognise and accept any risks of not taking action.

Scope

- 2 All the County Council's activities, funded from whatever source, fall within the remit of internal audit. Internal audit may consider the adequacy of controls necessary to secure propriety, economy, efficiency and effectiveness in all areas. It will seek to confirm that the County Council management has taken the necessary steps to achieve these objectives and manage the associated risks. The scope of internal audit 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. Internal audit shall devote particular attention to any aspects of risk management, control and governance processes affected by material changes to the County Council's risk environment.
- 3 The systems of control subject to internal audit work shall also include those systems of control operated by:
 - all the County Council'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 the County Council who provide any service that handles or processes the County Council finances or management information in any form.
- 4 It is not within the remit of internal audit to question the appropriateness of policy decisions. However internal audit are required to examine the

arrangements by which such decisions are made, monitored and reviewed.

- 5 Internal audit may also conduct any special reviews requested by the members of the County Council's Audit Committee or chief officers, provided such reviews do not compromise the audit service's objectivity or independence, or the achievement of the approved audit plan.

Responsibilities

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

- the County Treasurer's Section 151 responsibilities under the Local Government Act 1972, which require him to make arrangements for the proper administration of the County Council'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.

- 7 Internal audit fulfils its terms of reference 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 County Council's objectives
- identify, assess and manage the risks to achieving the County Council's objectives
- advise on, formulate, and evaluate policy, within the responsibilities of the Treasurer as Section 151 officer
- ensure the economical, effective and efficient use of resources
- ensure compliance with established policies, procedures, laws and regulations
- safeguard the County Council'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.

Standards and approach

- 8 Internal audit 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. Internal audit shall also have regard to advice provided by professional auditing and accountancy bodies.

- 9 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 Audit Committee.
- 10 In achieving its objectives, internal audit shall develop and implement an audit strategy that assesses the County Council's risk management, control and governance processes.

Independence

- 11 Internal audit 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 County Council 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 the Audit Committee, the Chief Executive and all chief officers.
- 12 The Audit Committee shall advise the members of the County Council on all matters concerning internal control. Within the County Council, responsibility for the County Council's risk management, control and governance processes rests with the members of the County Council and management, who shall ensure that appropriate and adequate arrangements exist without relying on internal audit. To preserve the objectivity and impartiality of the internal audit service's professional judgement, responsibility for implementing audit recommendations rests with the County Council management.

Access and liaison

- 13 Internal audit shall have unrestricted access to all documents, records, assets, personnel and premises of the County Council and its companies, and be authorised to obtain such information and explanations as they consider necessary to form their opinion.
- 14 In turn, internal audit agree to comply with any requests from the Audit Commission 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.
- 15 Internal audit shall liaise with the Audit Commission to enhance the level of service it provides to the County Council management.

Reporting

- 16 Internal audit 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 Audit Committee for approval

following consultation with relevant chief officers. The annual audit plan shall be approved by the County Treasurer as Section 151 officer and copied to the Audit Committee.

- 17 Internal audit produces its detailed assignment reports, in writing, usually within three weeks of completion of each audit to the appropriate designated managers. This provides an opinion on the area reviewed and makes recommendations where appropriate. Recommendations shall be prioritised. 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, for agreed recommendations, their proposed action, the person responsible for implementation and a date by which action will be completed. Material recommendations will usually be followed up some six to 12 months later. In addition the Audit Committee shall monitor the implementation of audit recommendations by the County Council's management.
- 18 The Chief Internal Auditor is accountable to the County Treasurer and the members of the County Council through the Audit Committee for the performance of the service. The Chief Internal Auditor shall keep the chief officers informed of audit results and draw the attention of the Audit Committee to significant findings and recommendations. This will be done by providing departmental management teams and the Audit Committee with a progress report which includes a summary of key issues, at least twice a year.
- 19 The Chief Internal Auditor submits an annual report for each department to their departmental management teams, based on the County Council's financial year. An overall report for the County Council as a whole is presented to the members of the County Council through the Audit Committee. This gives an opinion on the adequacy and effectiveness of the County Council's risk management, control and governance processes and on the arrangements for securing economy, efficiency and effectiveness.
- 20 The internal audit annual report to the members of the County Council shall include:
 - a statement of the overall adequacy and effectiveness of the County Council'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 County Council, the Statement on the System of Internal Financial Control (if still required) and the Statement on Internal Control 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 internal audit 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 the internal audit quality assurance programme.
- 21 The Chief Internal Auditor will review the annual report with the County Treasurer and Audit Committee prior to publication.

Irregularities, including fraud and corruption

- 22 Internal audit shall without delay report to the County Treasurer, Monitoring Officer and Chairman of the Audit Committee, serious weaknesses, significant fraud, major accounting and other breakdowns.
- 23 The Chief Internal Auditor shall be informed when evidence of potential irregularity, including fraud, corruption or any impropriety, is discovered so that he 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.

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

Working in partnership

- 24 Management within the County Council can help to ensure the smooth running of the internal audit service by:
- being available to discuss the audit needs assessment on an annual basis
 - keeping internal audit 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 recommendations
 - confirming the factual accuracy of a draft report and providing a management response to all recommendations before the final report is issued to the head of department or service
 - notifying internal audit of all cases of fraud or irregularity
 - sending internal copies of plans and reports issued by the County Council's external auditors
 - notifying internal audit of Audit Committee meeting dates and providing papers in advance.

Confidentiality and Freedom of Information

- 25 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. Further details regarding confidentiality and Freedom of Information are outlined in Annex A. Confidential documents includes but is not limited to those shown at Annex B.

Ownership of Documentation

- 26 Internal audit 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 the County Council.
- 27 Internal audit's data retention policy on the archiving and secure destruction of audit files requires that all audit files are retained for a period of seven years (six years plus the current year) and an annual programme is in place for the secure destruction of files once this time has elapsed. This policy will be applied to HCC files unless alternative arrangements are agreed in writing.

Review of Terms of Reference

- 28 These Terms of Reference will be reviewed periodically to ensure that they remain in line with relevant guidance and any changes will be agreed by both parties.

Date of last review: 25 March 2010

Confidentiality and Freedom of Information

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.

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.

Schedule of confidential documents

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 Hampshire 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