


FYLDE COUNCIL – INTERNAL AUDIT		
Topic	Internal Audit Charter	

1. Introduction

1.1 This charter establishes the framework in which Fylde Council's Internal Audit Service operates to best serve the Council and to meet its professional obligations under the Public Sector Internal Audit Standards (PSIAS) which were applicable from 1 April 2013.

1.2 The Standards require all internal audit services to implement and retain an 'Internal Audit Charter'. The purpose of the Internal Audit Charter is to formally define the internal audit activity's purpose, authority and responsibility.

1.3 For local government in the United Kingdom the Chartered Institute of Public Finance and Accountancy's (CIPFA) is the relevant standard setter. CIPFA has adopted the PSIAS which encompass the mandatory elements of the Global Institute of Internal Auditors' International Professional Practices Framework, including its definition of internal auditing, code of ethics, and international standards for the professional practice of internal auditing.

2. Definitions

2.1 For the purposes of this charter the following definitions shall apply:

The Board – the governance group charged with independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of financial reporting. At the Council this shall mean the Audit and Standards Committee.

Senior Management – those responsible for the leadership and direction of the Council. At the Council this should mean the Management Team.

Chief Audit Executive - the officer in a senior position responsible for effectively managing the internal audit activity in accordance with the internal audit charter and the Definition of Internal Auditing, the Code of Ethics, and the Standards. At the Council this shall mean the Head of Internal Audit.


3. Mission, Principles and Purpose

3.1 The mission of internal audit is expressed with the Standards as follows:

'to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.'

3.2 The Core Principles for the professional practice of internal auditing established by the Standards articulate internal audit effectiveness. For an internal audit function to be considered effective, all Principles should be present and operating effectively. Failure to achieve any of the Principles would imply that an internal audit activity was not as effective as it could be in achieving internal audit's mission. To comply with the Core Principles internal audit practice:

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Approved By	Audit & Standards Committee	Original Issue Date	14/11/2013
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- Demonstrates integrity
- Demonstrates competence and due professional care
- Is objective and free from undue influence (independent)
- Aligns with the strategies, objectives, and risks of the organisation
- Is appropriately positioned and adequately resourced
- Demonstrates quality and continuous improvement
- Communicates effectively
- Provides risk-based assurance
- Is insightful, proactive, and future-focused
- Promotes organisational improvement

3.3 The purpose of internal audit is best summarised through its definition within the Standards as an:

‘independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.’

3.4 The Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal audit performs a vital role in advising the Council that these arrangements are in place and operating effectively. The Council’s response to internal audit activity should lead to the strengthening of the control environment and, therefore, contribute to the achievement of the organisations objectives.

3.5 This is achieved through internal audit providing a combination of assurance and consulting activities. Assurance work involves assessing how well the systems and processes are designed and working, with consulting activities available to help to improve those systems and processes where necessary.

3.6 It is the responsibility of the Head of Internal Audit to provide an independent and objective opinion on the overall adequacy and effectiveness of the Council’s framework of governance, risk management and control. The Head of Internal Audit’s annual report is presented to those charged with governance and is used to support the Council’s Annual Governance Statement.


4. Authority

4.1 Within local government internal audit is a statutory function in the context of the Accounts and Audit Regulations 2015, which states that a relevant body must:

‘undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance’.

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4.2 The PSIAS and their accompanying Local Government Application Note have been recognised as 'proper practices' by the Department for Communities and Local Government, which sponsors the Accounts and Audit Regulations.

4.3 In addition the Local Government Act 1972 (Section 151) states that local authorities are required to 'make arrangements for the proper administration of their financial affairs'. It is this legislation that requires internal audit to maintain a focus on internal financial controls as well as the controls over the council's wider risks as required by the Accounts and Audit Regulations.

4.4 The council's Financial Procedure Rules provide for the internal audit service to have right of access to all manual records and electronic systems and be entitled to require the production of all cash, assets, stores and accounts and any supporting documents, and to obtain information and explanations from any employee of the Council with regard to any matter under examination.

5. Responsibility

5.1 The responsibility for maintaining an adequate and effective system of internal audit within the Council lies with the Chief Financial Officer (S151 Officer).

5.2 The Head of Internal Audit is responsible for effectively managing the internal audit activity in accordance with the 'Definition of Internal Auditing', the 'Code of Ethics' and 'the Standards'.

6. Scope of Internal Audit activities


6.1 Internal Audit is responsible for the delivery of an annual audit opinion and report that can be used by the Council to inform its governance statement. The annual opinion will conclude on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control.

6.2 The scope of internal audit's remit includes the authority's entire control environment and encompasses all of the Council's activities. Internal Audit work will cover all of the operational and management controls within the Council not just financial controls. However, this does not imply that all systems will be subjected to review, but that all systems will be included in the audit planning process and hence be considered for review following the assessment of risk.

6.3 In determining where effort should be concentrated, the Head of Internal Audit will take into account the level of assurance required, the significance of the objectives under review, the risks inherent in the achievement of objectives and the level of confidence required that controls are well designed and operating as intended.

6.4 The scope of internal audit work extends to services provided through partnership arrangements. The Head of Internal Audit should decide, in consultation with all parties, whether internal audit staff should conduct the work to derive the required assurance or rely on the assurances provided by others.

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6.5 Internal audit reports are prepared solely for the use of the Council and senior management. Details may be made available to specified partners and external organisations, including external auditors, but otherwise reports may not be quoted or referred to in whole or in part without prior consent. No responsibility to any third party for assurance provided may be accepted.

6.6 If the Head of Internal Audit, the Audit and Standards Committee or those charged with governance consider that the level of internal audit resources in any way limits the scope of internal audit work, impacts adversely on the provision of the annual internal audit opinion, or prejudices the ability of internal audit to deliver a service consistent with the definition of internal audit, they should advise the Chief Executive immediately.

7. Responsibilities and objectives

7.1 The PSIAS make clear that the provision of assurance services is internal audit's primary role. This role requires the Head of Internal Audit to provide an annual internal audit opinion based on an objective assessment of the framework of governance, risk management and control. The scope of internal audit work therefore encompasses all of the council's activities including those operated through partnerships with other organisations.

7.2 The Head of Internal Audit will establish an annual risk-based plan that takes into account the requirement to produce an annual evidence-based opinion and the council's wider assurance framework and other sources of assurance.

7.3 The main areas of internal audit responsibility within the authority are to review, appraise and report on:

the soundness, adequacy and effectiveness of the system of internal controls

the application of good practice in corporate governance and risk management

the operations in place to establish and monitor the achievement of the Council's objectives

the adequacy of arrangements in place to secure efficient, effective and economic use of resources

the integrity and reliability of financial and other management data, including aspects


of performance management, compliance with corporate policies, procedures,

controls and regulations and compliance with government legislation and statutory

obligations

the extent to which the assets and interests are properly controlled, accounted for and safeguarded from loss

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7.4 The Head of Internal Audit provides an annual internal audit opinion to the Audit and Standards Committee, based on the outcomes of internal work conducted throughout the year, that key risks are being managed effectively and that appropriate controls are in place. This opinion will be an important element of the council's review of the effectiveness of its control environment and will be used by the council to inform its annual governance statement.

7.5 The internal audit service may provide advisory/consultancy services either through formal review and reporting or more informally through discussion or briefing. The nature and scope of the work may include facilitation, process design, problem-solving, training and the conduct of special projects that make a material contribution to the achievement of the Council's aims and objectives, but this list is not exhaustive.

7.6 Internal audit will assist management with counter fraud initiatives and liaise with the independent corporate fraud service in the investigation of fraud and irregularity in accordance with the council's counter fraud policies and practices.

7.7 The Head of Internal Audit will attend Audit and Standards Committee meetings, contribute to committee agendas and support the Audit and Standards Committee in achieving effectiveness in the delivery of its terms of reference.

7.8 Internal audit is not responsible for the activities that it audits or reviews. The existence of internal audit does not diminish the responsibility of management to establish systems of internal control to ensure that activities are conducted in a secure, efficient and well-ordered manner.

7.9 Accountability for the response to the internal audit service's advice and recommendations lies with management, which either accepts and implements the advice or accepts the risks associated with not taking action.


8. Organisational Independence

8.1 The Council's internal audit service is provided in-house by the Internal Audit team within the Governance service, reporting operationally through the Head of Governance, who is a member of the Management Team, to the Director of Resources. However, internal audit activity is organisationally independent in its planning, operation and reporting.

8.2 The internal audit service remains independent of the council's other services, with the exception of its support to management in relation counter fraud and investigatory work, no internal auditor has any other executive or operational responsibilities. Auditors are expected to deploy impartial, unbiased and effective professional judgement. Objectivity requires that internal auditors do not subordinate their judgement on audit matters to others.

8.3 The internal audit service's priorities are determined in consultation with the Management Team and the council's senior managers, but remain a decision for the Head of Internal Audit.

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8.4 The internal audit service has direct access to the council's records, assets, premises and officers and may require such information and explanations as it considers necessary to fulfil its responsibilities. Accordingly the Head of Internal Audit has freedom to report independently and impartially in their own name and without fear or favour to all officers and members and particularly the Audit and Standards Committee.

8.5 Audit advice and recommendations for action, including where the internal audit service has been consulted about changes to internal control systems, are given without prejudice to the right of the internal audit service to review and make further recommendations on the relevant policies, procedures, controls and operations at a later date.

8.6 Internal auditors are precluded from delivering non-audit duties that require the establishment or implementation of controls or to assume any operational responsibilities that may prejudice the scope, objectivity and quality of future audit work.

8.7 Internal audit has no executive responsibilities. It is not an extension of, or a substitute for, the function of management. Responsibility for internal control rests fully with managers, who should ensure that arrangements are appropriate and adequate. It is for management to accept and implement audit recommendations or to accept the risk resulting from not taking any action.

8.8 The Head of Internal Audit will confirm to the Audit and Standards Committee on an annual basis, within the Annual Report, the organisational independence of the Internal Audit Service.

9. Individual Objectivity

9.1 Internal auditors must have an impartial, unbiased attitude and avoid any conflict of interest.

9.2 A conflict of interest is a situation in which an internal auditor, who is in a position of trust, has a competing professional or personal interest. Such competing interests can make it difficult for an auditor to fulfil their duties impartially. A conflict of interest exists even if no unethical or improper act results. A conflict of interest can create an appearance of impropriety that can undermine confidence in the internal auditor, the internal audit activity and the profession.


9.3 Internal auditors will not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the Council.

9.4 All auditors are required to make an annual declaration of their interests, which is updated during the year as necessary, and where any auditor has a real or perceived conflict of interest this is identified and actively managed to maintain the operational independence of the service as a whole.

10. Impairment of Independence

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10.1 If the independence or objectivity of internal audit is impaired in fact or appearance, the Head of Internal Audit must disclose the details of the impairment to Management Team and, if necessary, to the Audit and Standards Committee. The nature of the disclosure will depend upon the impairment.

10.2 Impairment to organisational independence and individual objectivity may include, but is not limited to, personal conflict of interest, scope limitations, restrictions on access to records, personnel and properties and resource limitations.

10.3 Internal auditors will ensure that independence and objectivity are maintained in line with the Standards including where non-audit work is undertaken. To manage potential conflicts of interest, internal auditors have no operational responsibilities and any independence issues are highlighted at the planning stage for individual audit assignments.

10.4 Internal auditors will refrain from assessing specific operations for which they were previously responsible. Objectivity is presumed to be impaired if an internal auditor provides assurance services for an activity for which the internal auditor had responsibility within the previous year.

11. Planning

11.1 The Head of Internal Audit is responsible for developing a risk-based annual plan that takes account of the requirement to produce an annual internal audit opinion and the assurance framework. It will be developed in accordance with the internal audit charter and how it links to the Council's objectives and priorities.

11.2 The annual audit plan will be submitted to the Audit and Standards Committee before the beginning of the financial year for approval. The plan will be compiled following consultation with Directors, Heads of Service and other stakeholders as appropriate and is documented in the audit plan methodology.


11.3 The risk-based plan will outline the audit assignments to be carried out.

11.4 The audit plan is dynamic in nature and will be reviewed and realigned periodically to take account of new, emerging and changing risks and priorities. It will be based on a risk assessment that covers financial materiality and business risks as well as any suspected or detected fraud, corruption or impropriety that has come to the attention of internal audit. It will be responsive, containing an element of contingency to accommodate assignments which could not have been reasonably foreseen.

11.5 Internal Audit will consult with the Council's external auditor and with other relevant inspection and review bodies, as necessary, in order to co-ordinate effort and avoid duplication.

11.6 Awareness of national issues is maintained through subscription to internet resources such as CIPFA's Technical Information Service. In addition there is liaison with external audit and networking with other local authority audit teams achieved primarily through the Lancashire District Councils

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Audit Group, which meets periodically throughout each year to discuss topical issues, emerging risks and progress specific initiatives.

11.7 As part of the planning process, the Head of Internal Audit will identify other potential sources of assurance and will include in the risk-based plan the approach to using other sources of assurance and any work required to place reliance upon those other sources.

11.8 The Head of Internal Audit considers accepting proposed consulting assignments based on the engagement's potential to improve management of risks, add value and improve the organisation's operations. Accepted engagements are included in the plan.

11.9 Approval will be sought from the Audit and Standards Committee for any significant additional consulting services not already included in the audit plan, prior to undertaking the engagement.

11.8 For each audit assignment, Internal Auditors will develop and document a plan including the objectives of the review, the scope, timing and resource allocations. In planning the assignment, auditors will consider, in conjunction with the auditees, the objectives of the activity being reviewed, significant risks to the activity, the probability of significant errors, fraud or non-compliance, and the adequacy and effectiveness of the activity's governance, risk management and control processes.

12. Accountability, reporting lines and relationships

12.1 The Head of Internal Audit reports to the Head of Governance, who is a member of Management Team, to the Director of Resources. However, internal audit activity is organisationally independent in its planning and operation. The Head of Internal Audit also reports to the Audit and Standards Committee.

12.2 Management Team supports the internal audit service and maintains a privileged cooperative relationship with the Head of Internal Audit based on mutual trust and support within the context of internal audit independence and the Internal Audit Charter. The Head of Internal Audit has unrestricted access to attend Management Team upon request.


12.3 The Head of Internal Audit has direct and unrestricted access to the Director of Resources who has statutory responsibility as the Council's Monitoring Officer under Section 5 of the Local Government and Housing Act 1989, for advising the Council on the legality of its decisions and providing guidance to councillors on the Council Constitution and its powers.

12.4 The Head of Internal Audit has direct and unrestricted access to the Chief Financial Officer, the proper officer under Section 151 of the Local Government Act 1972, for ensuring an effective system of internal financial control and proper financial administration of the Council's affairs.

12.5 The Head of Internal Audit has direct and unrestricted access to the Chief Executive, who carries the responsibility as head of paid service for the proper management of the Council and for ensuring that the principles of good governance are reflected in sound management arrangements.

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12.6 The Head of Internal Audit has the opportunity to meet with the chair and deputy chair of the Audit and Standards Committee before each committee meeting and at any other time as necessary. The Head of Internal Audit and the Chair of the Audit and Standards Committee have mutual direct and unrestricted access to each other as they consider appropriate.

12.7 Where it is considered necessary to the proper discharge of the internal audit function, the Head of Internal Audit has direct access to all elected Members of the Council and in particular those who serve on the Audit and Standards Committee.

12.8 For the purposes of the PSIAS the Audit and Standards Committee is regarded as the 'board'. It meets at least four times each year, and the Head of Internal Audit reports to that committee under its terms of reference. The Audit and Standards Committee is responsible for approving (but not directing) the annual internal audit plan. Final approval of the Internal Audit Charter also resides with the Audit and Standards Committee.

12.9 The internal audit service co-operates with council's external auditor to ensure that duplication of work is minimised and to make certain that scarce resources are used as effectively as possible and address the areas of highest risk.

12.10 The work of internal audit is reported to Corporate Directors, Heads of Service and the Audit and Standards Committee by means of specific reports, and also in summary form to Audit and Standards Committee via half yearly monitoring and activity reports.

13. Head of Internal Audit

13.1 The Head of Internal Audit plays an important role in delivering the Council's strategic objectives by championing best practice in governance and management, objectively assessing the adequacy of governance and management of existing risks and commenting on responses to emerging risks and developments.

13.2 The Head of Internal Audit is the most senior audit officer of the Council and must:

be a professionally qualified (CMIIA, CCAB or equivalent) and suitably experienced auditor

be of sufficient status to permit effective discussion and negotiation on the results of audit work, audit strategies, audit reports and action plans with Directors, senior management and the Audit and Standards Committee


hold a senior position in the organisation that reflects the influence of the post on the internal control environment

report to and be managed at corporate management team level

lead and direct an internal audit service that is resourced to be fit for purpose

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13.3 Management Team recognises the unique status of the Head of Internal Audit and welcomes constructive challenge and positive criticism from the internal audit service in pursuit of organisational improvement, the enhancement of governance processes and the strengthening of the control environment.

13.4 To ensure the independence of the Head of Internal Audit is safeguarded and that remuneration and performance assessment are not inappropriately influenced by those subject to audit, the Chief Executive will both countersign and contribute feedback to the performance appraisal of the Head of Internal Audit. Feedback will also be sought from the Chair of the Audit and Standards Committee.

13.5 Decisions of management concerning the appointment and removal of the Head of Internal Audit must be approved by the Audit and Standards Committee.

13.6 The Head of Internal Audit is responsible for recruiting appropriate internal audit staff, in accordance with the Council's human resources processes.

14 Fraud and Corruption

14.1 Internal audit does not have responsibility for the prevention and detection of fraud and corruption. Managing this risk is the responsibility of management. Audit procedures alone, even when performed with due professional care, cannot guarantee that fraud or corruption will be detected.


14.2 Internal audit must evaluate the risk of fraud and the manner in which it is managed by the organisation, but is not expected to have the expertise of those whose primary responsibility is detecting and investigating fraud. The internal audit activity must evaluate the potential for the occurrence of fraud and how the organisation manages fraud risk.

14.3 In accordance with the annual audit plan, internal auditors will plan and evaluate their work so as to have a reasonable expectation of identifying any significant weaknesses in internal controls that may result in exposure to fraud.

14.4 Internal auditors should always be alert in their work to the risks and exposures that could allow fraud or corruption to occur and to any indication that fraud or corruption may have taken place. The Head of Internal Audit considers all suspected or detected internal fraud, corruption or irregularity and evaluates the implications for the internal control environment.

14.5 In accordance with the Council's Financial Procedure Rules internal audit should be informed of all suspected or detected fraud, corruption and irregularity for the purpose of informing opinion on the control environment and internal audit work programme. At the request of management internal audit may go beyond the work needed to meet its assurance responsibilities and actively respond to and assist management in the investigation of such reported instances.

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14.6 An independent corporate fraud resource, external to internal audit, exists to provide fraud management and investigation services to the Council.

15 Arrangements for Appropriate Resourcing

15.1 The minimum level of internal audit coverage is that which is required to give a meaningful annual evidence-based opinion. The annual internal audit plan lays out the planned audit resources for the year with the objective of providing such an evidence-based opinion.

15.2 Internal Audit must be appropriately staffed in terms of numbers, grades, qualification levels and experience to deliver the annual plan as approved, having regard to its objectives, and to the Standards. Achievement of the internal audit annual plan is reported to the Audit and Standards Committee during the year.

15.3 In the event that the annual planning process identifies a need for more audit work than there are resources available, or circumstances arise during the year that resources fall or appear to be falling below the minimum level required to provide an annual evidence-based opinion, the Head of Internal Audit will identify the shortfall and advise the Chief Financial Officer and the Director of Resources followed by the Audit and Standards Committee as required, to assess the associated risks or to recommend that additional resources are identified.

16. Proficiency and Due Professional Care


16.1 Internal audit will be resourced appropriately to meet its objectives. It will have sufficient numbers of staff in terms of grades, qualifications, personal attributes and experience or have access to appropriate resources in order to meet its objectives and comply with the PSIAS. The Head of Internal Audit should obtain competent advice and assistance if the service is unable to perform all or part of an assignment.

16.2 The Head of Internal Audit will be professionally qualified in accordance with the Statement on the Role of the Head of Internal Audit and have wide internal audit and management experience, reflecting the responsibilities that arise from the need to liaise internally and externally with members, senior management and other professionals.

16.3 Internal auditors will perform work with due professional care, competence and diligence. Internal auditors cannot be expected to identify every control weakness or irregularity but their work should be designed to enable them to provide reasonable assurance regarding the controls examined within the scope of their review. Internal auditors must apply the care and skill expected of a reasonably prudent and competent internal auditor. Due professional care does not imply infallibility.

16.4 The Head of Internal Audit will obtain competent advice and assistance if the internal auditors lack the knowledge, skills, or other competencies needed to perform all or part of the engagement.

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16.5 Internal auditors will have a continuing duty to develop and maintain their professional skills, knowledge and judgement based on continuous professional development, appropriate training, ability, integrity, objectivity and respect.

16.6 Internal auditors will apprise themselves of the 'Definition of Internal Auditing', the 'Public Sector Internal Audit Standards' and the 'Code of Ethics' contained therein, which are all mandatory, and will work in accordance with them in the conduct of their duties.

16.7 Internal auditors will treat the information they receive in carrying out their duties as confidential. There will be no unauthorised disclosure of information unless there is a legal or professional requirement to do so. Confidential information gained in the course of internal audit work will not be used to effect personal gain.

17. Quality assurance

17.1 The Head of Internal Audit operates a quality assurance and improvement framework that assesses on-going compliance with the Standards, the Definition of Internal Auditing and the internal auditors' Code of Ethics and whether the internal audit service is consistently meeting its internal quality standards.

17.2 The Head of Internal Audit is responsible for ensuring that audit staff maintain appropriate standards of due care in completing audit assignments. Essential to this requirement is the audit procedure manual, which is kept current by regular review. The manual provides guidance on overall quality of work and performance standards to be achieved. Feedback on quality and effectiveness is also actively sought from clients.


17.3 A regular assessment of the internal audit service's conformance with the PSIAS will be conducted using the checklist included within CIPFA's Application Note and presented to Management Team and the Audit and Standards Committee. The outcome of the exercise will form part of the annual governance statement.

17.4 Periodically, but not less than once every five years, the Internal Audit Service will be subject to an external assessment by a qualified, independent assessor from outside the organisation. This will take the form of a self-assessment in accordance with CIPFA's Application Note, together with an independent external validation by peer review organised through the Lancashire District Council Audit Group, providing there is no conflict of interest.

17.5 The Head of Internal Audit will agree the scope of external assessments with the Chair of the Audit and Standards Committee as well as with the external assessor. The results of the assessment will be reported to Management Team and the Audit and Standards Committee.

17.6 The Annual Report will incorporate a statement on conformance with the Standards, the results of the quality and assurance programme and progress against any improvement plans arising.

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Instances of non-conformance must be reported to the Audit and Standards Committee. More significant deviations must be considered for inclusion in the Annual Governance Statement.

18. Review

18.1 The Head of Internal Audit will periodically review the Internal Audit Charter and present it to Management Team for agreement and the Audit and Standards Committee for final approval.

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