

Nels Roseland  
*State Controller, Chair*

Charles Perusse  
*State Budget Officer*

Pamela Cashwell  
*Secretary of Administration*

Josh Stein  
*Attorney General*

Ron Penny  
*Secretary of Revenue*

Beth Wood  
*State Auditor*

Agenda

July 13, 2022

Call to Order

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Adjourn



COUNCIL OF INTERNAL AUDITING  
ETHICS AWARENESS  
AND CONFLICT OF INTEREST REMINDER

It is the duty of every Council member to avoid both conflicts of interest and the appearances of conflict.

If any Council member has any known conflict of interest or is aware of facts that might create the appearance of such conflict, with respect to any matters coming before the Council today, please identify the conflict or the facts that might create the appearance of a conflict to ensure that any inappropriate participation in that matter may be avoided. If at any time, any new matter that raises a conflicts issue arises during the meeting, please be sure to identify it at that time.





# STATE OF NORTH CAROLINA

## *COUNCIL OF INTERNAL AUDITING*

Dr. Linda Combs  
*State Controller, Chair*

Charles Perusse  
*State Budget Officer*

Pam Cashwell  
*Secretary of  
Administration*

Joshua Stein  
*Attorney General*

Ron Penny  
*Secretary of Revenue*

Beth A. Wood  
*State Auditor*

**Minutes**  
**April 6, 2022**

### **Call to Order**

The Council of Internal Auditing (COIA) met virtually on Wednesday, April 6, 2022. Chair Dr. Linda Combs presided and called the meeting to order at 9:01 am, took a voice roll call of members present (see below), then read the Ethics Awareness and Conflict of Interest Reminder. No conflicts were noted by the members.

The following Council of Internal Auditing Members were present virtually:

Dr. Linda Combs, Chair – State Controller  
Charles Perusse, State Budget Director  
Pam Cashwell, Secretary of Department of Administration (joined later)  
Tiffany Lucas representing Attorney General Josh Stein  
Daryl Morrison representing Ron Penny, Secretary of Revenue (by phone)  
Beth Wood, State Auditor  
Barbara Baldwin, COIA Director, OSBM

### **A. Approval of Minutes by Roll Call Vote**

No corrections were made to the November 10, 2021 minutes.  
State Budget Director Charles Perusse moved to approve the November 10, 2021 minutes and Tiffany Lucas, Representative of Attorney General Josh Stein, seconded the motion.

Roll Call Vote for Approval of November 10, 2021 Minutes were all verbally accepted by the following members:

Charles Perusse  
Tiffany Lucas, representing Josh Stein, Attorney General  
Dr. Linda Combs  
Daryl Morrison representing Ron Penny, Secretary of Revenue

## **B. Council Items**

### **1. Proposed CIAO Restructure – overview provided by Barbara Baldwin**

Barbara reviewed the Central Internal Audit Office (CIAO) Restructure report with the Council. The purpose of the restructure is to enhance services to stakeholders, improve Council programs and expand internal audit initiatives. General Statute 143-747 mandates Internal Auditing Standards and Council requirements; staffing levels, peer reviews, training, the Award of Excellence program, the internal audit shared program and requirement for maintaining a database for reports, plans and assessments.

Short term and ongoing initiatives that the Council is working on include: Internal Audit New Classification Series, creating a list of both state and federal laws related to information or data deemed as confidential, productivity tool to enhance internal audit functions with administration of engagements, timekeeping and workflow processes, IIA Group Membership, Tableau P-card Analytics, Statewide Internship Program, Self-Assessment Maturity Model Dashboard and a State Term Contract (STC) for Supplemental Internal Audit staff.

Pages 14 and 15 of the report show the agencies they are servicing with internal audit functions. Estimated COIA expenses of the existing COIA structure for Fiscal Year 2022 including State and Federal Funds is \$1,356,300.

New Session Law 2021-180, Session 24.5 effective July 1, 2022, increases the number of COIA members by two which will be appointed by the General Assembly. The Council is required to 1) establish key performance indicators and criteria that comply with the Professional Practice of Internal Auditing; 2) annually certification by Agency Heads to certify to the Council the audit plan was developed and audit reports conducted; 3) gather and assess State agencies conformance with the Standards and key performance indicators, and 4) report findings of key performance indicators and Standards to the Joint Legislative Commission on Governmental Operations by October 1, 2022. However, the Technical Corrections Bill changed the deadline from October 1, 2022 to December 31, 2022 to provide more time to implement.

The appropriation bill allocates \$350,000 for three positions (Executive Director, Internal Auditor, Administrative Specialist) to OSBM to support the new Council requirements. Page 18 displays the organizational chart of the new CIAO. The new Executive Director will oversee the Internal Audit Manager who oversees the NCPRO (Pandemic Recovery) and NCORR (Resiliency Office) Internal Audit Functions which are temporary, as well as the Assistant Executive Director who will oversee the Council of Internal Auditing and Shared Programs. The Secession Plan is the Assistant Executive Director will be mentored to fill the Executive Director position. When the NCPRO and NCORR temporary offices close, the Internal Audit Manager can then supervise the Shared Programs and the Assistant Executive Director will focus on the Council Programs. The Council must approve the selection of the Executive Director. Estimated expenses for the new CIAO structure is \$1.9 million and includes salary increases for 2023.

CIAO Hiring Process: The three positions mandated through the new Session Law will be exempted from the NC Human Resources Act. Job Descriptions for those positions were developed in March with input from State Auditor Beth Wood, Director Linda Combs and Charles Perusse. Jobs will be posted in April with interviews conducted by OSBM in May. Recommended candidates will be presented to the Council the end of May with final decisions for the positions by June 8, 2022 and new employees beginning on July 1, 2022.

Barbara recommended the Council to review on their own the responsibilities of each section as outlined in Pages 19 through 22 in the report.

For the Council's mandated programs and initiatives, it is recommended that the Self-Assessment Maturity Model (SAMM) tool be modified to allow for assessing conformance with the Standards and receiving agency head certification. The Head of each agency is required to attest that the risk-based audit plan and each internal audit report conforms to the IIA Standards. The attestations will be submitted and kept in a central database to refer back to. The North Carolina University System Office published a document listing best practice key performance indicators to measure internal audit activities. One of the biggest indicators is the Audit plan completion. The database can be modified to capture additional information for checking effectiveness. It is further recommended to modify the Self-Assessment Maturity Model (SAMM) tool due date from September 30<sup>th</sup> to July 15<sup>th</sup> of each year to have validations at the October meeting.

State Auditor Beth Wood wanted to note as part of the new legislation that there will be two additional Council members that will be recommended by the General Assembly who are CPA's and will not work for the State.

State Budget Director Charles Perusse moved to approve the proposed CIAO Restructure and also expressed his appreciation to Barbara and her staff for their hard work, to Auditor Wood for her input, and mentioned all the items relating to the new restructure were considered carefully for the long term, not piecemeal, to ensure the Council is set-up right. It was a collaborative, comprehensive effort, a "labor of love". He hopes for many good applicants for the new Council staff. Daryl Morrison, representing Ron Penny, Secretary of Revenue, seconded the motion.

Roll Call Vote to adopt the proposed CIAO Restructure verbally acknowledged by the following members:

Charles Perusse

Secretary Pam Cashwell

Tiffany Lucas, representing Josh Stein, Attorney General

Daryl Morrison representing Ron Penny, Secretary of Revenue

Dr. Linda Combs

## **2. Executive Director**

Dr. Combs mentioned that Barbara had provided the overview and the report lists the responsibilities of the new Executive Director. If there were no questions, then the Council would vote to approve Barbara Baldwin as the new Executive Director.

Secretary Pam Cashwell shared that she has the utmost respect for Barbara who has been super helpful by assisting her in her position at DPS as well as currently at DOA, and in looking at her extensive resume has the qualities needed for this position. **Secretary Pam Cashwell moved to approve Barbara Baldwin as the new Executive Director. Charles Perusse seconded the motion.**

State Auditor Beth Wood said although she is a non-voting member of the Council, Barbara is a great manager, a great leader, understands the standards and understands Internal Audit. Auditor Wood also mentioned that the Legislative Oversight Committee wants to see results and Barbara is the exact person needed in this role.

Dr. Combs said working with Barbara has been a tremendous experience and thanked the Council for their work and offered her support of the motion.

Roll Call Vote to Appoint Barbara Baldwin as the new CIAO Executive Director was verbally acknowledged by the following members:

Charles Perusse – announced “enthusiastically”

Secretary Pam Cashwell – also thumbs up

Tiffany Lucas, representing Josh Stein, Attorney General

Daryl Morrison representing Ron Penny, Secretary of Revenue

Dr. Linda Combs

Dr. Combs congratulated Barbara Baldwin for being selected by the Council to serve as the new Executive Director. Barbara thanked the Council for selecting her and for their continued support.

### **C. Work Plan Update for the Central Internal Audit Office (CIAO)**

Barbara updated the Council on work completed since July 2021. Regarding the Self-Assessment Maturity Model (SAMS), held two six-hour work sessions with the Internal Audit Directors and Internal Auditors.

#### **1. Self-Assessment Maturity Model**

Self-Assessment Maturity Model met the mandate. Barbara shared a snapshot of the SAMM dashboard which is a very interactive tool and one assigned for every organization.

#### **2. Statewide Internship Program**

Barbara shared a snapshot from the dashboard on the Internship Program in which the UNC System Office has established and is running. There were ten student interns in the Fall of 2021 and currently there are fifteen intern students in the Spring Program. Their engagements included: Information Systems, Compliance Issues, Application Reviews, Operational/Performance Issues and Data Analytic Dashboards.

Dr. Combs encouraged the Council to continue to support Barbara in this effort to see the program to fruition.

Barbara shared that with regards to success stories, OSBM has hired two of the interns and they have worked well thus far.



Secretary Pam Cashwell mentioned that the Department of Administration (DOA) has two positions that have been posted or will be in the next couple days; one for Internal Audit Manager and Internal Auditor II. She requested to pass that information along if the Council knows of anyone who may be interested in applying.

State Auditor Beth Wood emphasized that going forward there is a separate class for Internal Auditors and suggests posting at the maximum level. Barbara indicated only the Supervisor, Manager and Director positions were classified with a grade and she recommends posting with the grade as opposed to a hiring range. Charles Perusse mentioned the OSHR Compensation Classification is set to go live on June 1<sup>st</sup> and from the budget side with the Governor's Budget including compensation which is needed to recruit new staff, perhaps recruitment will be better. Auditor Wood told Charles that he has a lot of respect at the General Assembly and that they are looking for results; therefore, a report needed to be put out which shows returns on the investments.

Barbara announced that this is Chair Dr. Linda Combs last meeting due to her upcoming retirement and thanked her for all of her support over the years.

Dr. Combs mentioned that she hoped to see the Council members again before her June 30<sup>th</sup> official retirement. She thanked the Council of Internal Audit (COIA) for allowing her to serve and for their support to encourage Internal Auditing throughout the State.

### **3. Adjournment**

Secretary Pam Cashwell moved to adjourn with the motion seconded by Charles Perusse.

Adjournment Roll Call Vote was acknowledged by raising their hand as follows:

Charles Perusse

Tiffany Lucas, representing Josh Stein, Attorney General

Secretary Pam Cashwell

Daryl Morrison representing Ron Penny, Secretary of Revenue

Dr. Linda Combs, Chair

Witness my hand, this 6th day of April 2022.

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Linda Combs, State Controller, Chair

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Barbara Baldwin, Secretary



## **Institute of Internal Auditing Standards**

### **Development of the Risk-Based Audit Plan**

#### **2010 – Planning**

The chief audit executive must establish a risk-based plan to determine the priorities of the internal audit activity, consistent with the organization's goals.

#### **Interpretation:**

*To develop the risk-based plan, the chief audit executive consults with senior management and the board and obtains an understanding of the organization's strategies, key business objectives, associated risks, and risk management processes. The chief audit executive must review and adjust the plan, as necessary, in response to changes in the organization's business, risks, operations, programs, systems, and controls.*

**2010.A1** – The internal audit activity's plan of engagements must be based on a documented risk assessment, undertaken at least annually. The input of senior management and the board must be considered in this process.

**2010.A2** – The chief audit executive must identify and consider the expectations of senior management, the board, and other stakeholders for internal audit opinions and other conclusions.

**2010.C1** – The chief audit executive should consider accepting proposed consulting engagements based on the engagement's potential to improve management of risks, add value, and improve the organization's operations. Accepted engagements must be included in the plan.

## Attestation for Risk-Based Audit Plan

### CHIEF AUDIT EXECUTIVE ATTESTATION

*I have met with the Head of my organization and explained how the Risk-Based Audit Plan was developed in accordance with the aforementioned Standards.*

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Signature (Chief Audit Executive)

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Date

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Print Name

### HEAD OF THE AGENCY/UNIVERSITY ATTESTATION

*I have read the above Standards and met with the Chief Audit Executive, who has explained how the Standards were followed in accordance with state law to establish the risk-based audit plan for fiscal year \_\_\_\_\_. As the agency head of \_\_\_\_\_, I attest, to the best of my knowledge, that the risk-based audit plan was developed in accordance with the required standards.*

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Signature (Head of Agency/University)

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Date

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Print Name

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Print Title

# Institute of Internal Auditing Standards

## Planning an Engagement

### 2200 – Engagement Planning

Internal auditors must develop and document a plan for each engagement, including the engagement's objectives, scope, timing, and resource allocations. The plan must consider the organization's strategies, objectives, and risks relevant to the engagement.

### 2201 – Planning Considerations

In planning the engagement, internal auditors must consider:

- The strategies and objectives of the activity being reviewed and the means by which the activity controls its performance.
- The significant risks to the activity's objectives, resources, and operations and the means by which the potential impact of risk is kept to an acceptable level.
- The adequacy and effectiveness of the activity's governance, risk management, and control processes compared to a relevant framework or model.
- The opportunities for making significant improvements to the activity's governance, risk management, and control processes.

**2201.A1** – When planning an engagement for parties outside the organization, internal auditors must establish a written understanding with them about objectives, scope, respective responsibilities, and other expectations, including restrictions on distribution of the results of the engagement and access to engagement records.

**2201.C1** – Internal auditors must establish an understanding with consulting engagement clients about objectives, scope, respective responsibilities, and other client expectations. For significant engagements, this understanding must be documented.

### 2210 – Engagement Objectives

Objectives must be established for each engagement.

**2210.A1** – Internal auditors must conduct a preliminary assessment of the risks relevant to the activity under review. Engagement objectives must reflect the results of this assessment.

**2210.A2** – Internal auditors must consider the probability of significant errors, fraud, noncompliance, and other exposures when developing the engagement objectives.

**2210.A3** – Adequate criteria are needed to evaluate governance, risk management, and controls. Internal auditors must ascertain the extent to which management and/or the board has established adequate criteria to determine whether objectives and goals have been accomplished. If adequate, internal auditors must use such criteria in their evaluation. If inadequate, internal auditors must identify appropriate evaluation criteria through discussion with management and/or the board.

### Interpretation:

*Types of criteria may include:*

- *Internal (e.g., policies and procedures of the organization).*
- *External (e.g., laws and regulations imposed by statutory bodies).*

- *Leading practices (e.g., industry and professional guidance).*

**2210.C1** – Consulting engagement objectives must address governance, risk management, and control processes to the extent agreed upon with the client.

**2210.C2** – Consulting engagement objectives must be consistent with the organization's values, strategies, and objectives.

## **2220 – Engagement Scope**

The established scope must be sufficient to achieve the objectives of the engagement.

**2220.A1** – The scope of the engagement must include consideration of relevant systems, records, personnel, and physical properties, including those under the control of third parties.

**2220.A2** – If significant consulting opportunities arise during an assurance engagement, a specific written understanding as to the objectives, scope, respective responsibilities, and other expectations should be reached and the results of the consulting engagement communicated in accordance with consulting standards.

**2220.C1** – In performing consulting engagements, internal auditors must ensure that the scope of the engagement is sufficient to address the agreed-upon objectives. If internal auditors develop reservations about the scope during the engagement, these reservations must be discussed with the client to determine whether to continue with the engagement.

**2220.C2** – During consulting engagements, internal auditors must address controls consistent with the engagement's objectives and be alert to significant control issues.

## **2230 – Engagement Resource Allocation**

Internal auditors must determine appropriate and sufficient resources to achieve engagement objectives based on an evaluation of the nature and complexity of each engagement, time constraints, and available resources.

### **Interpretation:**

*Appropriate refers to the mix of knowledge, skills, and other competencies needed to perform the engagement. Sufficient refers to the quantity of resources needed to accomplish the engagement with due professional care.*

## **2240 – Engagement Work Program**

Internal auditors must develop and document work programs that achieve the engagement objectives.

**2240.A1** – Work programs must include the procedures for identifying, analyzing, evaluating, and documenting information during the engagement. The work program must be approved prior to its implementation, and any adjustments approved promptly.

**2240.C1** – Work programs for consulting engagements may vary in form and content depending upon the nature of the engagement.

## **Institute of Internal Auditing Standards**

### **Performing the Engagement**

#### **2300 – Performing the Engagement**

Internal auditors must identify, analyze, evaluate, and document sufficient information to achieve the engagement's objectives.

#### **2310 – Identifying Information**

Internal auditors must identify sufficient, reliable, relevant, and useful information to achieve the engagement's objectives.

#### **Interpretation:**

*Sufficient information is factual, adequate, and convincing so that a prudent, informed person would reach the same conclusions as the auditor. Reliable information is the best attainable information through the use of appropriate engagement techniques. Relevant information supports engagement observations and recommendations and is consistent with the objectives for the engagement. Useful information helps the organization meet its goals.*

#### **2320 – Analysis and Evaluation**

Internal auditors must base conclusions and engagement results on appropriate analyses and evaluations.

#### **2330 – Documenting Information**

Internal auditors must document sufficient, reliable, relevant, and useful information to support the engagement results and conclusions.

**2330.A1** – The chief audit executive must control access to engagement records. The chief audit executive must obtain the approval of senior management and/or legal counsel prior to releasing such records to external parties, as appropriate.

**2330.A2** – The chief audit executive must develop retention requirements for engagement records, regardless of the medium in which each record is stored. These retention requirements must be consistent with the organization's guidelines and any pertinent regulatory or other requirements.

**2330.C1** – The chief audit executive must develop policies governing the custody and retention of consulting engagement records, as well as their release to internal and external parties. These policies must be consistent with the organization's guidelines and any pertinent regulatory or other requirements.

#### **2340 – Engagement Supervision**

Engagements must be properly supervised to ensure objectives are achieved, quality is assured, and staff is developed.

#### **Interpretation:**

*The extent of supervision required will depend on the proficiency and experience of internal auditors and the complexity of the engagement. The chief audit executive has overall responsibility for supervising the engagement, whether performed by or for the internal audit activity, but may*

*designate appropriately experienced members of the internal audit activity to perform the review. Appropriate evidence of supervision is documented and retained.*

## **Institute of Internal Auditing Standards**

### **Communicating Results**

#### **2400 – Communicating Results**

Internal auditors must communicate the results of engagements.

#### **2410 – Criteria for Communicating**

Communications must include the engagement's objectives, scope, and results.

**2410.A1** – Final communication of engagement results must include applicable conclusions, as well as applicable recommendations and/or action plans. Where appropriate, the internal auditors' opinion should be provided. An opinion must take into account the expectations of senior management, the board, and other stakeholders and must be supported by sufficient, reliable, relevant, and useful information.

#### **Interpretation:**

*Opinions at the engagement level may be ratings, conclusions, or other descriptions of the results. Such an engagement may be in relation to controls around a specific process, risk, or business unit. The formulation of such opinions requires consideration of the engagement results and their significance.*

**2410.A2** – Internal auditors are encouraged to acknowledge satisfactory performance in engagement communications.

**2410.A3** – When releasing engagement results to parties outside the organization, the communication must include limitations on distribution and use of the results.

**2410.C1** – Communication of the progress and results of consulting engagements will vary in form and content depending upon the nature of the engagement and the needs of the client.

#### **2420 – Quality of Communications**

Communications must be accurate, objective, clear, concise, constructive, complete, and timely.

#### **Interpretation:**

*Accurate communications are free from errors and distortions and are faithful to the underlying facts. Objective communications are fair, impartial, and unbiased and are the result of a fair-minded and balanced assessment of all relevant facts and circumstances. Clear communications are easily understood and logical, avoiding unnecessary technical language and providing all significant and relevant information. Concise communications are to the point and avoid unnecessary elaboration, superfluous detail, redundancy, and wordiness. Constructive communications are helpful to the engagement client and the organization and lead to improvements where needed. Complete communications lack nothing that is essential to the target audience and include all significant and relevant information and observations to support recommendations and conclusions. Timely*



*communications are opportune and expedient, depending on the significance of the issue, allowing management to take appropriate corrective action.*

#### **2421 – Errors and Omissions**

If a final communication contains a significant error or omission, the chief audit executive must communicate corrected information to all parties who received the original communication.

#### **2430 – Use of “Conducted in Conformance with the *International Standards for the Professional Practice of Internal Auditing*”**

Indicating that engagements are “conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*” is appropriate only if supported by the results of the quality assurance and improvement program.

#### **2431 – Engagement Disclosure of Nonconformance**

When nonconformance with the Code of Ethics or the *Standards* impacts a specific engagement, communication of the results must disclose the:

- Principle(s) or rule(s) of conduct of the Code of Ethics or the Standard(s) with which full conformance was not achieved.
- Reason(s) for nonconformance.
- Impact of nonconformance on the engagement and the communicated engagement results.

#### **2440 – Disseminating Results**

The chief audit executive must communicate results to the appropriate parties.

#### **Interpretation:**

*The chief audit executive is responsible for reviewing and approving the final engagement communication before issuance and for deciding to whom and how it will be disseminated. When the chief audit executive delegates these duties, he or she retains overall responsibility.*

**2440.A1** – The chief audit executive is responsible for communicating the final results to parties who can ensure that the results are given due consideration.

**2440.A2** – If not otherwise mandated by legal, statutory, or regulatory requirements, prior to releasing results to parties outside the organization the chief audit executive must:

- Assess the potential risk to the organization.
- Consult with senior management and/or legal counsel as appropriate.
- Control dissemination by restricting the use of the results.

**2440.C1** – The chief audit executive is responsible for communicating the final results of consulting engagements to clients.

**2440.C2** – During consulting engagements, governance, risk management, and control issues may be identified. Whenever these issues are significant to the organization, they must be communicated to senior management and the board.

#### **2450 – Overall Opinions**

When an overall opinion is issued, it must take into account the strategies, objectives, and risks of the organization; and the expectations of senior management, the board, and other stakeholders. The overall opinion must be supported by sufficient, reliable, relevant, and useful information.

**Interpretation:**

*The communication will include:*

- *The scope, including the time period to which the opinion pertains.*
- *Scope limitations.*
- *Consideration of all related projects, including the reliance on other assurance providers.*
- *A summary of the information that supports the opinion.*
- *The risk or control framework or other criteria used as a basis for the overall opinion.*
- *The overall opinion, judgment, or conclusion reached.*

*The reasons for an unfavorable overall opinion must be stated.*

## Attestation for Internal Audit Reports

### CHIEF AUDIT EXECUTIVE ATTESTATION

Check Reporting Quarter

- ☐ Quarter 1 (July 1 – September 30)  
☐ Quarter 2 (October 1 – December 31)  
☐ Quarter 3 (January 1 – March 31)  
☐ Quarter 4 (April 1 – June 30)

One of the two boxes must be checked.

- ☐ *No internal audit report was issued during the current quarter. Therefore, I have not discussed the aforementioned Standards with the Head of the Agency/University at this time.*
- ☐ *I have met with the Head of the Agency/University and explained how each internal audit report listed below was developed in accordance with the aforementioned Standards.*

List all final reports during the reporting quarter.

- 1.
- 2.
- 3.

\_\_\_\_\_  
Signature (Chief Audit Executive)

\_\_\_\_\_  
Date

\_\_\_\_\_  
Print Name

### HEAD OF THE AGENCY/UNIVERSITY ATTESTATION

*I have read the above Standards and met with the Chief Audit Executive, who has explained how the Standards were followed in accordance with state law as related to the reports listed above. As the agency head of \_\_\_\_\_, I attest, to the best of my knowledge, that the internal audit reports were developed in accordance with the required standards.*

\_\_\_\_\_  
Signature (Head of Agency/University)

\_\_\_\_\_  
Date

\_\_\_\_\_  
Print Name

\_\_\_\_\_  
Print Title



## Performance Measures

The new mandated requirement 143-747(c)(3a) states:

Establish required minimum key performance indicators and criteria that comply with the Professional Practice of Internal Auditing issued by the Institute for Internal Auditors.

1. **Productivity Time – Input measure.** Tracks the use of staff time. Staff time is the primary resource used by internal audit programs to produce audit reports. Productivity looks at how individual staff members time is used. For example, to produce audit reports and other work products versus time used for meetings, training, administrative tasks, or leave. This measure identifies the ratio of direct hours (time spent producing assurance, consulting services, and other work products), indirect hours (meetings, training, administrative tasks, etc.), and benefit hours (vacation, sick leave, etc.) to total hours.
2. **Audit Plan versus Engagements Completed – Output measures.** Tracks the number of engagement reports issued. The production of engagement reports represents internal audit program's primary activity. Using this measure, internal audit programs can compare the number of reports issued during the year to the number of audits planned for the year. Engagement duration can vary and depends on many factors, internal audit programs should explain significant variances. Tracking the measure over time can provide insight into:
  - Sufficiency of internal audit staffing relative to established requirements for internal audit services (as represented by the annual audit plan);
  - Adequacy of annual planning processes (including estimates of required resources per project, or sufficiency of time allocated to emergent projects;
  - Relationship between internal audit staff competencies versus desired engagement work (for example, long learning-curve times that delay completion of information technology (IT) engagements might indicate need for added IT audit skills);
  - Sufficiency of the internal auditor's access to records, staff, or other information.
3. **Number of Recommendations Accepted by Management – Outcome Measure.** Tracks the effectiveness of recommendations. The primary benefits of the work of internal audit programs include regulatory accountability, reduced costs, increased revenues, and improved services. Internal auditing alone does not directly produce these benefits; they only come from the implementation of audit recommendations. Recommendations are more effective with management's support. One way to measure the effectiveness of recommendations is to track the number of recommendations agreed to by management.
4. **Conformance with the Standards – Quality Measure.** Tracks the conformance with Institute of Internal Auditor's Professional Practice of Internal Auditing. Internal audit programs that adhere to professional auditing standards are required to establish a quality control system that embeds quality assurance and supervision within internal audit processes. An external assessment is required every five years and provides an independent opinion on an internal audit program's quality control system and compliance with the standards. Between external assessments, internal audit programs must perform a self-assessment as to conformance with the standards.



**North Carolina Council of Internal Auditing**  
**Key Performance Measure**  
**Productivity Time**

## INSTRUCTIONS

## OVERALL INSTRUCTION

1. Complete all cells highlighted in blue and you **MUST** fill-in the bold items (you may have zero hours but you must enter a numbers).
2. Submit the document through the Central Database (SharePoint) by July 15 of each year. Use the following schematic to name the document:  
Productivity\_fiscal year\_agency/university acronym  
Example: Productivity\_FY2023\_OSBM

## Part I: GENERAL INFORMATION

1. Enter the Name of the person completing the form.
2. Enter the Title of the person completing the form.
3. Enter the fiscal year for the related information.

PART II: PROFESSIONAL AUDIT STAFF

1. List the name of each professional internal auditor that performs engagement assignments.
2. For each professional internal audit staff, list the amount of time the person was in the position. Example: Person hired November 1 would be .67 FTE. Person on staff for entire year is 1 FTE. Person terminated employment January would be .58 FTE.
3. If the FTE number is less than 1, include start or termination date.

### Part III: Calculation of Available Hours

No input is need for this section.

#### Part IV: Recoding Hours Related to Activities Performed

1. Review definition in the tab entitled "Definitions".
2. Enter the amount of hours spent during the year on each activity.
3. If necessary, enter additional rows to special project or other.

## PART I: GENERAL INFORMATION

Agency/University	OSBM
Name of person completing form	Barbara Baldwin
Title of person completing form	IA Director
Fiscal Year	2022

### PART III: AVAILABLE HOURS

Professional Audit Staff	6.92
Number hours in a year	2,080.00
Total available hours	<b>14,386.66</b>

## PART IV: ACTIVITY TIME

Activity	Hours
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### Assurance and Consulting

Compliance Engagements	1,764.00
Consulting Engagements	801.00
Financial Engagements	-
Follow-up Engagements	318.00
Information System Engagements	1,167.00
Investigative Engagements	971.00
Operational/Integrated Engagements	1,631.00
Risk Assessment for Audit Plan	875.00

<b>Technical Assistance</b>	553.66
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**Special Projects (describe below)**

<b>Council Reporting Requirements (SAMM, Attestation, Annual Report, KPI)</b>	261.00
Quality Assurance Improvement Program	305.00
Performing a Peer Review	126.00
COIA work group for attestation template	98.00
Speaking engagements	24.00

**Other: (describe below)**

Assist with establishing the Pandemic Office	849.00
COIA Peer Review Program	781.00
COIA Training Program	211.00
COIA Award	25.00
COIA Meetings	83.00

<b>Administration Time</b>	1,232.00
<b>Leave Time</b>	1,394.00
<b>Training</b>	917.00
<b>Total time spent</b>	<b>14,386.66</b>

Difference	0.00
------------	------

(greater than zero due to comp time worked)

## PART II: PROFESSIONAL AUDIT STAFF

Name	Full-time Equivalent	Explain if FTE < 1
Barbara Baldwin	1.00	
Michele Sykes	1.00	
Jack Gagnon	1.00	
Cameron Brown	1.00	
Sam Brennen-Lisko	1.00	
Carolyn Heden	0.67	started November 1
Kay Radford	0.50	part time employee
Leigh Ann Kerr	0.75	left April 1

<b>Total FTE</b>	<b>6.92</b>
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# ANNUAL ACTIVITY REPORT

As Required by G.S. 143-747(c)(12)

[enter date]



PREPARED FOR:

**STATE OF NORTH CAROLINA**  
***COUNCIL OF INTERNAL AUDITING***

*Prepared By:*

*Office of Internal Audit*  
*Office of State Budget and Management*

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# EXECUTIVE SUMMARY

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## **PURPOSE**

This report provides information on the **service efforts and accomplishments**<sup>1</sup> of state agencies'<sup>2</sup> internal audit programs from July 1, 2020, through June 30, 2021, as required by the North Carolina Internal Audit Act<sup>3</sup> (Act).

## **BACKGROUND**

The Act required Executive Branch agencies, meeting certain **criteria**, to establish a program of internal auditing that (1) **promotes an effective system of internal controls**, (2) **determines if the agency complies with federal and state laws, regulations, and other requirements**, (3) **reviews the effectiveness and efficiency of agency program operations and service delivery**, and (4) **periodically audits the agency's accounting, administrative, and information technology systems and controls**.

The Act also established the Council of Internal Auditing (Council) to provide services to agency internal audit programs, issue an annual report on agencies' internal audit **service efforts and accomplishments**,<sup>4</sup> and propose legislation for consideration by the Governor and General Assembly.

There were 186.25 internal audit positions spread across 38 of the 47 state agencies subject to the Act from July 1, 2020, through June 30, 2021. The positions were budgeted at a total cost of approximately **\$17.7 million**.

## **KEY ACCOMPLISHMENTS**

- Ex: Internal auditors identified approximately \$3.6 million in cost savings and process improvements during the state fiscal year.
- Accomplishment 2
- Accomplishment 3

## **Key Findings and Recommendations**

- Ex: Only 10 of 38 (26%) agencies completed more than 50% of their audit plan.
- Recommendation 2
- Recommendation 3

The key findings and recommendations in this summary may not be inclusive of all the accomplishments and recommendations in this report

<sup>1</sup> Although not defined in statute, the Government Accounting Standards Board (GASB) defines service efforts and accomplishments reporting as reporting that is "intended to include information about the services provided and the effect of those services to assist users in assessing the degree to which the government is achieving its program or government-wide goals."

<sup>2</sup> Agency means department, office, university, commission, board.

<sup>3</sup> Entire Internal Audit Act is in the Appendix.

<sup>4</sup> Although not defined in statute, the Government Accounting Standards Board (GASB) defines service efforts and accomplishments reporting as reporting that is "intended to include information about the services provided and the effect of those services to assist users in assessing the degree to which the government is achieving its program or government-wide goals."

## Introduction

This report provides information on the **service efforts and accomplishments**<sup>5</sup> of state agencies<sup>6</sup> internal audit programs from July 1, 2020, through June 30, 2021, as required by the North Carolina Internal Audit Act<sup>7</sup> (Act).

The Act requires Executive Branch Agencies, meeting certain **criteria**, to establish a program of internal auditing that (1) **promotes an effective system of internal controls**, (2) **determines if the agency complies with federal and state laws, regulations, and other requirements**, (3) **reviews the effectiveness and efficiency of agency program operations and service delivery**, and (4) **periodically audits the agency's accounting, administrative, and information technology (IT) systems and controls**.

The Act requires agencies to comply with "current Standards for the Professional Practice of Internal Auditing issued by the Institute for Internal Auditors or, if appropriate, Government Auditing Standards issued by the Comptroller General of the United States." These standards require internal auditors to follow a methodology that includes developing a **risk assessment**.

A risk assessment performed in accordance with IIA Standards is critical for the determination of the vulnerabilities of an agency or university in meeting their objectives. Therefore, the risk assessment directs internal auditors where to concentrate their audit efforts.

The risk assessment is also used to determine the "type" of audit that needs to be performed. Consequently, the internal audit program may perform several different types of audits to meet risk assessment needs. The internal audit program also performs investigations when necessary.

Additionally, the standards require periodic internal and external quality assessments of the internal audit program.

Of the 47 state agencies subject to the Act during 2020-21 state fiscal year, 38 represented that they maintained an internal audit program. These agencies had a total of 186.25 internal audit positions budgeted at approximately **\$17.7 million**.

Four of the 47 state agencies outsourced their internal audit program to other agencies or private contractors as follows:

- North Carolina School of the Arts contracted with Winston-Salem State University for audit services
- North Carolina School of Science and Mathematics contracted with the University of North Carolina System Office
- North Carolina State Education Assistance Authority contracted with the University of North Carolina System Office
- North Carolina Housing Finance Agency contracted with Cherry Bekaert

<sup>5</sup> Although not defined in statute, the Government Accounting Standards Board (GASB) defines service efforts and accomplishments reporting as reporting that is "intended to include information about the services provided and the effect of those services to assist users in assessing the degree to which the government is achieving its program or government-wide goals."

<sup>6</sup> Agency means department, office, university, commission, board.

<sup>7</sup> Entire Internal Audit Act is in the Appendix.

The remaining five state agencies used the Office of State Budget and Management (OSBM) services instead of having an in-house internal audit program. Agencies under \$70 million in operating funds may use OSBM as their internal audit program. OSBM provided internal audit services for the following agencies during state fiscal year (SFY) 2020-21:

- Commissioner of Banks
- Department of Military and Veterans Affairs
- Office of State Human Resources
- Office of the Governor
- Office of the State Auditor

The Department of Military and Veterans Affairs is above the \$70 million threshold but uses OSBM due to a lack of resources.

The Act also established the Council of Internal Auditing (Council) and required it to issue an annual report on agencies' internal audit **service efforts and accomplishments** and propose legislation for consideration by the Governor and General Assembly.

Therefore, this report has been presented with **eight sections**:

- **Section 1** provides information on the internal audit risk assessments and their role in promoting effective systems of internal controls.
- **Sections 2 through 5** report the different types of audits performed, based on risk assessments, and the results of those audits.
- **Section 6** reports the results of investigative engagements.
- **Section 7** provides the results of the external quality assurance assessments.
- **Section 8** provides the results of the internal quality assurance assessments.

## Service Efforts and Accomplishments

The following eight sections provide information about the internal audit services provided and the effect of those services to assist readers of this report in assessing the degree to which the internal audit program is achieving its goals.

### 1. Promoting Effective Systems of Internal Controls

*North Carolina General Statute (NCGS) 143-746(a)(1)* requires state agencies to establish a program of internal auditing that “promotes an effective system of internal controls that safeguards public funds and assets and minimizes incidences of fraud, waste, and abuse.”

Establishing and adhering to a **risk-based** audit plan as required by Institute of Internal Audit standards helps to ensure compliance with NCGS 143-746 and provide reasonable assurance that agency and university plans, methods, policies, and procedures will result in the successful achievement of the entity’s mission, strategic plan, goals, and objectives.

The International Standards for the Professional Practice of Internal Auditing issued by the Institute for Internal Auditors states:

The chief audit executive<sup>8</sup> must establish a risk-based plan to determine the priorities of the internal audit activity, consistent with the organization’s goals.

State agency and university management are responsible for ensuring that the internal audit program complies with the internal audit standard listed above. Therefore, the Council of Internal Auditing (Council) requires the internal audit director and agency or university head to certify that the audit plan was prepared in accordance with standards. The Council also requires state agencies to submit their risk-based audit plans to the Council.

<sup>8</sup> Generally, the Director of Internal Audit is the chief audit executive in state agencies and universities.



Table 1 below shows state agencies' efforts and accomplishments in establishing and adhering to a risk-based audit plan that promotes effective systems of internal control. The table shows the audits and other engagements planned and percentage of the audit plan completed.<sup>9</sup>

**Table 1: Adherence to Risk-Based Audit Plans**

Agency	Date Certified Risk-Based Audit Plan Received	Compliance Engagements Planned	Operational Engagements Planned	Financial Engagements Planned	Information Systems Engagements Planned	Consulting Engagements Planned	Investigative Engagements Added	Non-Investigative Engagements Added	Engagements Cancelled or Deferred	Engagements Completed	Percent of Audit Plan Completed
Community College System Office											
Department of Administration											
Department of Agriculture and Consumer Services											
Department of Commerce											
Department of Environmental Quality											
Department of Health and Human Services											
Department of Information Technology											
Department of Insurance											
Department of Justice											
Department of Labor											
Department of Natural and Cultural Resources											
Department of Public Instruction											
Department of Public Safety											
Department of Revenue											
Department of Secretary of State											
Department of State Treasurer											
Department of Transportation											
North Carolina Education Lottery											
North Carolina Housing Finance Agency											
Office of State Budget and Management											
Office of the State Controller											
Wildlife Resources Commission											
Appalachian State University											
East Carolina University											
Elizabeth City State University											
Fayetteville State University											
North Carolina Agricultural & Technical State University											
North Carolina Central University											
North Carolina School of the Arts											
North Carolina School of Science and Math											
North Carolina State University											
North Carolina State Education & Assistance Authority											
University of North Carolina - Asheville											
University of North Carolina - Chapel Hill											
University of North Carolina - Charlotte											
University of North Carolina - System Office											
University of North Carolina - Greensboro											
University of North Carolina - Pembroke											
University of North Carolina - Wilmington											
University of North Carolina - Hospital											
Western Carolina University											
Winston-Salem State University											

**Source:**

## 2. Determining Compliance with Laws and Regulations

Based on a risk assessment performed in accordance with the International Standards for the Professional Practice of Internal Auditing issued by the Institute for Internal Auditors, internal auditors may conduct **compliance audits** to determine if agency “**programs and business operations** are administered in compliance with federal and state laws, regulations, and other requirements” as described in *North Carolina General Statute (NCGS) 143-746(a)(2)*.

During the 2020-21 state fiscal year, XX (xx%) of XX internal audits and engagements completed were compliance audits. For example,

- Example 1 – agency, audit topic, summary results
- Example 2 – agency, audit topic, summary results
- Example 3 – agency, audit topic, summary results
- Example 4 – agency, audit topic, summary results
- Example 5 – agency, audit topic, summary results

<sup>9</sup> Calculated as: completed / (planned + added – cancelled or deferred) = % audit plan completed

Table 2 below shows state agencies' **efforts and accomplishments** in performing **compliance audits**. The table shows the number of compliance audits planned and completed, recommendations accepted, and corrective action plans written by agency management.

**Table 2: Compliance Audits**

Agency	Compliance Engagements Planned	Compliance Engagements Completed	Recommendations Made	Recommendations Accepted	Corrective Action Plans Written	Questionable Cost Identified
Community College System Office						
Department of Administration						
Department of Agriculture and Consumer Services						
Department of Commerce						
Department of Environmental Quality						
Department of Health and Human Services						
Department of Information Technology						
Department of Insurance						
Department of Justice						
Department of Labor						
Department of Natural and Cultural Resources						
Department of Public Instruction						
Department of Public Safety						
Department of Revenue						
Department of Secretary of State						
Department of State Treasurer						
Department of Transportation						
North Carolina Education Lottery						
North Carolina Housing Finance Agency						
Office of State Budget and Management						
Office of the State Controller						
Wildlife Resources Commission						
Appalachian State University						
East Carolina University						
Elizabeth City State University						
Fayetteville State University						
North Carolina Agricultural & Technical State University						
North Carolina Central University						
North Carolina School of the Arts						
North Carolina School of Science and Math						
North Carolina State University						
North Carolina State Education & Assistance Authority						
University of North Carolina - Asheville						
University of North Carolina - Chapel Hill						
University of North Carolina - Charlotte						
University of North Carolina - System Office						
University of North Carolina - Greensboro						
University of North Carolina - Pembroke						
University of North Carolina - Wilmington						
University of North Carolina - Hospital						
Western Carolina University						
Winston-Salem State University						

**Source:**

### 3. Promoting Effective and Efficient Operations

Based on a **risk assessment** performed in accordance with the International Standards for the Professional Practice of Internal Auditing issued by the Institute for Internal Auditors, internal auditors may conduct **performance and operational audits** to determine the “effectiveness and efficiency of Agency and program operations and service delivery” as described in *North Carolina General Statute (NCGS) 143-746(a)(3)*.

During the 2020-21 state fiscal year, XX (xx%) of XX internal audits and engagements completed were performance or operational audits. For example,

- Example 1 – agency, audit topic, summary results
- Example 2 – agency, audit topic, summary results
- Example 3 – agency, audit topic, summary results
- Example 4 – agency, audit topic, summary results
- Example 5 – agency, audit topic, summary results

Table 3 below shows state agencies' **efforts and accomplishments** in conducting **performance and operational audits**. The table shows the number of performance and operational audits planned and completed, the number of recommendations made, recommendations accepted, corrective action plans written by agency management, and the estimated value of improvements, cost savings, and wasteful spending identified.

**Table 3: Performance and Operational Audits**

Agency	Operational Engagements Planned	Operational Engagements Completed	Efficiency Recommendations Made	Efficiency Recommendations Accepted	Effectiveness Recommendations Made	Effectiveness Recommendations Accepted	Corrective Action Plans Written
Community College System Office							
Department of Administration							
Department of Agriculture and Consumer Services							
Department of Commerce							
Department of Environmental Quality							
Department of Health and Human Services							
Department of Information Technology							
Department of Insurance							
Department of Justice							
Department of Labor							
Department of Natural and Cultural Resources							
Department of Public Instruction							
Department of Public Safety							
Department of Revenue							
Department of Secretary of State							
Department of State Treasurer							
Department of Transportation							
North Carolina Education Lottery							
North Carolina Housing Finance Agency							
Office of State Budget and Management							
Office of the State Controller							
Wildlife Resources Commission							
Appalachian State University							
East Carolina University							
Elizabeth City State University							
Fayetteville State University							
North Carolina Agricultural & Technical State University							
North Carolina Central University							
North Carolina School of the Arts							
North Carolina School of Science and Math							
North Carolina State University							
North Carolina State Education & Assistance Authority							
University of North Carolina - Asheville							
University of North Carolina - Chapel Hill							
University of North Carolina - Charlotte							
University of North Carolina - System Office							
University of North Carolina - Greensboro							
University of North Carolina - Pembroke							
University of North Carolina - Wilmington							
University of North Carolina - Hospital							
Western Carolina University							
Winston-Salem State University							

**Source:**

## 4. Auditing Major Systems and Controls

Based on a risk assessment performed in accordance with the International Standards for the Professional Practice of Internal Auditing issued by the Institute for Internal Auditors, internal auditors may conduct **financial and information technology** (IT) audits to evaluate an agency's "major systems and controls" as described in *North Carolina General Statute (NCGS) 143-746(a)(4)*.

Financial audits evaluate **internal controls** and address the validity of **accounting, budgeting, and financial transactions**. IT audits **evaluate, assess, and verify** that information systems produce reliable and accurate information and comply with IT-specific laws, policies, and standards.

During the 2020-21 state fiscal year, XX (xx%) of XX internal audits and engagements completed were financial or IT audits. For example,

- Example 1 – agency, audit topic, summary results
- Example 2 – agency, audit topic, summary results

- Example 3 – agency, audit topic, summary results
- Example 4 – agency, audit topic, summary results
- Example 5 – agency, audit topic, summary results

Table 4 below shows state agencies' efforts and accomplishments in conducting financial and IT audits. The table shows the number of financial and IT audits planned and completed and the number of recommendations made, accepted, and corrective action plans written by agency management.

**Table 4: Audits of Major Systems and Controls**

Agency	Financial Engagements Planned	Financial Engagements Completed	IT Engagements Planned	IT Engagements Completed	Recommendations Made	Recommendations Accepted	Corrective Action Plans Written
Community College System Office							
Department of Administration							
Department of Agriculture and Consumer Services							
Department of Commerce							
Department of Environmental Quality							
Department of Health and Human Services							
Department of Information Technology							
Department of Insurance							
Department of Justice							
Department of Labor							
Department of Natural and Cultural Resources							
Department of Public Instruction							
Department of Public Safety							
Department of Revenue							
Department of Secretary of State							
Department of State Treasurer							
Department of Transportation							
North Carolina Education Lottery							
North Carolina Housing Finance Agency							
Office of State Budget and Management							
Office of the State Controller							
Wildlife Resources Commission							
Appalachian State University							
East Carolina University							
Elizabeth City State University							
Fayetteville State University							
North Carolina Agricultural & Technical State University							
North Carolina Central University							
North Carolina School of the Arts							
North Carolina School of Science and Math							
North Carolina State University							
North Carolina State Education & Assistance Authority							
University of North Carolina - Asheville							
University of North Carolina - Chapel Hill							
University of North Carolina - Charlotte							
University of North Carolina - System Office							
University of North Carolina - Greensboro							
University of North Carolina - Pembroke							
University of North Carolina - Wilmington							
University of North Carolina - Hospital							
Western Carolina University							
Winston-Salem State University							

Source:

## 5. Consulting Engagements

Consulting engagements are not identified by a risk assessment performed in accordance with the International Standards for the Professional Practice of Internal Auditing issued by the Institute for Internal Auditors. Internal auditors perform consulting engagements at **management's request** to improve state agency governance, risk management, and control processes. Consulting engagements include activities such as providing counsel, advice, facilitation, and training. Consulting engagements **do not** include performing management functions.

The International Standards for the Professional Practice of Internal Auditing provides the following definition:

Consulting services are advisory in nature and are generally performed at the specific request of an engagement client. The nature and scope of the consulting

engagement are subject to agreement with the engagement client. Consulting services generally involve two parties: (1) the person or group offering the advice — the internal auditor, and (2) the person or group seeking and receiving the advice — the engagement client. **When performing consulting services, the internal auditor should maintain objectivity and not assume management responsibility.**

During the 2020-21 state fiscal year, XX (xx%) of XX internal audits and engagements completed were consulting engagements. For example,

- Example 1 – agency, consulting topic, summary results
- Example 2 – agency, consulting topic, summary results
- Example 3 – agency, consulting topic, summary results
- Example 4 – agency, consulting topic, summary results
- Example 5 – agency, consulting topic, summary results

Table 5 below shows state agencies' efforts and accomplishments in performing consulting engagements. The table shows the number of consulting engagements planned and completed and the number of recommendations made, accepted, and corrective action plans written by agency management.

**Table 5: Consulting Engagements**

Agency	Consulting Engagements Planned	Consulting Engagements Completed	Recommendations Made	Recommendations Accepted	Corrective Action Plans Written
Community College System Office					
Department of Administration					
Department of Agriculture and Consumer Services					
Department of Commerce					
Department of Environmental Quality					
Department of Health and Human Services					
Department of Information Technology					
Department of Insurance					
Department of Justice					
Department of Labor					
Department of Natural and Cultural Resources					
Department of Public Instruction					
Department of Public Safety					
Department of Revenue					
Department of Secretary of State					
Department of State Treasurer					
Department of Transportation					
North Carolina Education Lottery					
North Carolina Housing Finance Agency					
Office of State Budget and Management					
Office of the State Controller					
Wildlife Resources Commission					
Appalachian State University					
East Carolina University					
Elizabeth City State University					
Fayetteville State University					
North Carolina Agricultural & Technical State University					
North Carolina Central University					
North Carolina School of the Arts					
North Carolina School of Science and Math					
North Carolina State University					
North Carolina State Education & Assistance Authority					
University of North Carolina - Asheville					
University of North Carolina - Chapel Hill					
University of North Carolina - Charlotte					
University of North Carolina - System Office					
University of North Carolina - Greensboro					
University of North Carolina - Pembroke					
University of North Carolina - Wilmington					
University of North Carolina - Hospital					
Western Carolina University					
Winston-Salem State University					

**Source:**

## 6. Investigative Engagements

Investigative engagements **are not** identified by a risk assessment performed in accordance with the International Standards for the Professional Practice of Internal Auditing issued by the Institute for Internal Auditors. Internal auditors perform **investigative engagements** at **management's request** to evaluate allegations surrounding suspected incidents of fraud, misuse of assets, abuse, or waste of agency or university dollars.

During the 2020-21 state fiscal year, XX (xx%) of XX internal audits and engagements completed were investigative engagements. For example,

- Example 1 – agency, investigative topic, summary results
- Example 2 – agency, investigative topic, summary results
- Example 3 – agency, investigative topic, summary results
- Example 4 – agency, investigative topic, summary results
- Example 5 – agency, investigative topic, summary results

Table 6 below shows state agencies' efforts and accomplishments in performing investigative engagements. The table shows the number of investigative engagements completed, the hours spent on investigations, the number of audits displaced by investigations, number of recommendations made for corrective action (disciplinary action, recover monies, correct internal control weaknesses), number of disciplinary or other administrative actions taken (terminations, suspensions, debarments, personnel actions), number of investigations not substantiated, and hours spent on unsubstantiated investigations.

**Table 6: Investigative Engagements**

Agency	Investigative Engagements Planned	Total Investigative Hours	Recommendations Made	Corrective Action Taken	Number of Unsubstantiated Investigations	Hour for Unsubstantiated	Questionable Cost
Community College System Office							
Department of Administration							
Department of Agriculture and Consumer Services							
Department of Commerce							
Department of Environmental Quality							
Department of Health and Human Services							
Department of Information Technology							
Department of Insurance							
Department of Justice							
Department of Labor							
Department of Natural and Cultural Resources							
Department of Public Instruction							
Department of Public Safety							
Department of Revenue							
Department of Secretary of State							
Department of State Treasurer							
Department of Transportation							
North Carolina Education Lottery							
North Carolina Housing Finance Agency							
Office of State Budget and Management							
Office of the State Controller							
Wildlife Resources Commission							
Appalachian State University							
East Carolina University							
Elizabeth City State University							
Fayetteville State University							
North Carolina Agricultural & Technical State University							
North Carolina Central University							
North Carolina School of the Arts							
North Carolina School of Science and Math							
North Carolina State University							
North Carolina State Education & Assistance Authority							
University of North Carolina - Asheville							
University of North Carolina - Chapel Hill							
University of North Carolina - Charlotte							
University of North Carolina - System Office							
University of North Carolina - Greensboro							
University of North Carolina - Pembroke							
University of North Carolina - Wilmington							
University of North Carolina - Hospital							
Western Carolina University							
Winston-Salem State University							

**Source:**

## 7. External Assessments of Internal Audit Quality

To comply with the International Standards for the Professional Practice of Internal Auditing issued by the Institute for Internal Auditors, internal audit programs must obtain an external **quality assurance review** “at least **once every five years** by a qualified, independent assessor or assessment team from outside the organization.”

According to the Institute of Internal Auditors, external quality assurance reviews validate that the internal audit activity conforms with the International Standards for the Professional Practice of Internal Auditing and internal auditors apply The Institute of Internal Auditor’s Code of Ethics.

Agencies can use the Council of Internal Auditing’s (Council’s) Peer Review program or use other methods to obtain the external quality assurance review. The Council’s Peer Review program was modeled after and follows all the requirements included in the Institute of Internal Auditors Quality Assessment manual. Internal audit programs receive a rating of (1) generally conforms, (2) partially conforms, or (3) does not conform.

Table 7 below shows the results of external assessments performed during the last five years.

**Table 7: External Assessments**

Agency	Date Due	Status	Rating
Community College System Office	April 2017	Complete	Generally Conforms
Department of Administration	July 2019	Complete	Partially Conforms
Department of Agriculture and Consumer Services	August 2017	Complete	Generally Conforms
Department of Commerce	December 2021	Complete	Generally Conforms
Department of Environmental Quality	December 2019	Complete	Generally Conforms
Department of Health and Human Services	December 2019	Complete	Generally Conforms
Department of Information Technology	September 2019	Complete	Does Not Conform
Department of Insurance	May 2019	Complete	Generally Conforms
Department of Justice	November 2019		Generally Conforms
Department of Labor	April 2024		
Department of Natural and Cultural Resources	July 2020		Generally Conforms
Department of Public Instruction	February 2020	Complete	Generally Conforms
Department of Public Safety	March 2019	Complete	Generally Conforms
Department of Revenue	August 2019	Complete	Generally Conforms
Department of Secretary of State	December 2018	Complete	Generally Conforms
Department of State Treasurer	March 2021		Generally Conforms
Department of Transportation	January 2018	Complete	Generally Conforms
North Carolina Education Lottery	February 2020	Complete	Generally Conforms
North Carolina Housing Finance Agency	March 2019	Complete	Generally Conforms
Office of State Budget and Management	June 2018	Complete	Generally Conforms
Office of the State Controller	December 2018	Complete	Generally Conforms
Wildlife Resources Commission	May 2020		
Appalachian State University	September 2018	Complete	Generally Conforms
East Carolina University	April 2021		Generally Conforms
Elizabeth City State University	November 2021	Complete	Generally Conforms
Fayetteville State University	May 2019	Complete	Generally Conforms
North Carolina Agricultural & Technical State University	June 2019	Complete	Generally Conforms
North Carolina Central University	October 2018	Complete	Generally Conforms
North Carolina School of the Arts	February 2020	Complete	Generally Conforms
North Carolina School of Science and Math	May 2019	Complete	Generally Conforms
North Carolina State University	July 2017	Complete	Generally Conforms
North Carolina State Education & Assistance Authority	May 2019	Complete	Generally Conforms
University of North Carolina - Asheville	October 2018	Complete	Generally Conforms
University of North Carolina - Chapel Hill	December 2018	Complete	Generally Conforms
University of North Carolina - Charlotte	September 2018	Complete	Generally Conforms
University of North Carolina - System Office	May 2019	Complete	Generally Conforms
University of North Carolina - Greensboro	March 2020		Generally Conforms
University of North Carolina - Pembroke	February 2020		Generally Conforms
University of North Carolina - Wilmington	May 2021		Generally Conforms
University of North Carolina - Hospital	August 2020		Generally Conforms
Western Carolina University	October 2018	Complete	Generally Conforms
Winston-Salem State University	February 2020	Complete	Generally Conforms

**Source:**

## 8. Internal Assessments of Internal Audit Quality

To comply with the International Standards for the Professional Practice of Internal Auditing issued by the Institute for Internal Auditors, internal audit programs must receive “periodic self-assessments or assessments by other persons within the organization with sufficient knowledge of internal audit practices.”

According to the Institute of Internal Auditors, these internal quality assurance reviews validate that the internal audit activity continues to conform with the International Standards for the Professional Practice of Internal Auditing and The IIA’s Code of Ethics.

Internal audit programs comply with the periodic self-assessment requirement by performing internal quality assurance reviews during the four years that an external quality assurance review is not performed. Internal audit programs receive a rating of (1) generally conforms, (2) partially conforms, or (3) does not conform.

Table 8 below shows the results of the last four internal assessments performed. The most recent internal assessment is labeled as “Year 1.”

**Table 8: Internal Assessments**

Agency	Year 1	Year 2	Year 3	Year 4
Community College System Office				
Department of Administration				
Department of Agriculture and Consumer Services				
Department of Commerce				
Department of Environmental Quality				
Department of Health and Human Services				
Department of Information Technology				
Department of Insurance				
Department of Justice				
Department of Labor				
Department of Natural and Cultural Resources				
Department of Public Instruction				
Department of Public Safety				
Department of Revenue				
Department of Secretary of State				
Department of State Treasurer				
Department of Transportation				
North Carolina Education Lottery				
North Carolina Housing Finance Agency				
Office of State Budget and Management				
Office of the State Controller				
Wildlife Resources Commission				
Appalachian State University				
East Carolina University				
Elizabeth City State University				
Fayetteville State University				
North Carolina Agricultural & Technical State University				
North Carolina Central University				
North Carolina School of the Arts				
North Carolina School of Science and Math				
North Carolina State University				
North Carolina State Education & Assistance Authority				
University of North Carolina - Asheville				
University of North Carolina - Chapel Hill				
University of North Carolina - Charlotte				
University of North Carolina - System Office				
University of North Carolina - Greensboro				
University of North Carolina - Pembroke				
University of North Carolina - Wilmington				
University of North Carolina - Hospital				
Western Carolina University				
Winston-Salem State University				

**Source:**



## Results and Challenges

**Reserved** for discussion of any factors that the Council sees as affecting the internal audit effort.

Topics may include:

- Proposed legislation for consideration by the Governor and General Assembly.
- Quality/Confidence Problems
  - Number of Audit Plans not certified by Agency Head
  - Number of Audits/Reports not certified by Agency Head as complying with IIA standards
- Budget
- Salaries
- Training
- Technology
- Etc.

## Audit Resources and Staffing Recommendations

North Carolina General Statute 143-747(c)(4) requires the Council to recommend the number of internal audit employees required by each State agency.

The Council staff refreshes the staffing analysis every three to four years. The staffing analysis is an abridged review to identify the **minimal** number of internal audit positions needed, not the optimal. **A more extensive review must be conducted to determine the optimal number of positions needed in each internal audit program.**

The last review was completed in June 2017, which identified 24 agencies with internal audit staffing levels under the minimum needed to address risk within their agencies. Using the current model for analysis, the number positions needed to get all agencies to the minimum number is **52.5 positions** at a cost<sup>10</sup> of **\$5.46 million** if new positions are required. But there may be no additional costs if existing vacant positions are used.

Details of the specific staffing recommendations can be seen in Table 9 below.

**Table 9: Staffing Levels**

Agency	Current Positions	Minimum Positions Recommended by CIA staff	Difference
Community College System Office			
Department of Administration			
Department of Agriculture and Consumer Services			
Department of Commerce			
Department of Environmental Quality			
Department of Health and Human Services			
Department of Information Technology			
Department of Insurance			
Department of Justice			
Department of Labor			
Department of Natural and Cultural Resources			
Department of Public Instruction			
Department of Public Safety			
Department of Revenue			
Department of Secretary of State			
Department of State Treasurer			
Department of Transportation			
North Carolina Education Lottery			
North Carolina Housing Finance Agency			
Office of State Budget and Management			
Office of the State Controller			
Wildlife Resources Commission			
Appalachian State University			
East Carolina University			
Elizabeth City State University			
Fayetteville State University			
North Carolina Agricultural & Technical State University			
North Carolina Central University			
North Carolina School of the Arts			
North Carolina School of Science and Math			
North Carolina State University			
North Carolina State Education & Assistance Authority			
University of North Carolina - Asheville			
University of North Carolina - Chapel Hill			
University of North Carolina - Charlotte			
University of North Carolina - System Office			
University of North Carolina - Greensboro			
University of North Carolina - Pembroke			
University of North Carolina - Wilmington			
University of North Carolina - Hospital			
Western Carolina University			
Winston-Salem State University			

**Source:**

<sup>10</sup> Annual cost of a position includes Salary and Benefits of \$100,000 and operating cost of \$4,000.

## APPENDIX

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### ***NORTH CAROLINA INTERNAL AUDIT ACT***

#### Article 79. Internal Auditing.

##### **§ 143-745. Definitions; intent; applicability.**

- (a) For the purposes of this section:
  - (1) "Agency Head" means the Governor, a Council of State member, a cabinet secretary, the President of The University of North Carolina, the President of the Community College System, the State Controller, and other independent appointed officers with authority over a State Agency.
  - (2) "State Agency" means each department created pursuant to Chapter 143A or 143B of the General Statutes, and includes all institutions, boards, commissions, authorities, by whatever name, that is a unit of the executive branch of State government, including The University of North Carolina, and the Community Colleges System Office. The term does not include a unit of local government.
- (b) This Article applies only to a State Agency that:
  - (1) Has an annual operating budget that exceeds ten million dollars (\$10,000,000);
  - (2) Has more than 100 full-time equivalent employees; or
  - (3) Receives and processes more than ten million dollars (\$10,000,000) in cash in a fiscal year. (2007-424, s. 1; 2009-516, s. 2; 2013-406, s. 1; 2016-126, 4th Ex. Sess., s. 9.)

##### **§ 143-746. Internal auditing required.**

- (a) Requirements. - A State Agency shall establish a program of internal auditing that:
  - (1) Promotes an effective system of internal controls that safeguards public funds and assets and minimizes incidences of fraud, waste, and abuse.
  - (2) Determines if programs and business operations are administered in compliance with federal and state laws, regulations, and other requirements.
  - (3) Reviews the effectiveness and efficiency of Agency and program operations and service delivery.
  - (4) Periodically audits the Agency's major systems and controls, including:
    - a. Accounting systems and controls.
    - b. Administrative systems and controls.
    - c. Information technology systems and controls.
- (b) Internal Audit Standards. - Internal audits shall comply with current Standards for the Professional Practice of Internal Auditing issued by the Institute for Internal Auditors or, if appropriate, Government Auditing Standards issued by the Comptroller General of the United States.
- (c) Appointment and Qualifications of Internal Auditors. - Any State employee who performs the internal audit function shall meet the minimum qualifications for internal auditors established by the Office of State Human Resources, in consultation with the Council of Internal Auditing.

(d) Director of Internal Auditing. - The Agency Head shall appoint a Director of Internal Auditing who shall report to, as designated by the Agency Head, (i) the Agency Head, (ii) the Chief Deputy or Chief Administrative Assistant, or (iii) the Agency Governing Board, or subcommittee thereof, if such a governing board exists. The Director of Internal Auditing shall be organizationally situated to avoid impairments to independence as defined in the auditing standards referenced in subsection (b) of this section.

(e) Insufficient Personnel. - If a State Agency has insufficient personnel to comply with this section, the Office of State Budget and Management shall provide technical assistance.

(f) Reporting Fraudulent Activity. - If an internal audit conducted pursuant to this section results in a finding that a private person or entity has received public funds as a result of fraud, misrepresentation, or other deceptive acts or practices while doing business with the State Agency, the internal auditor shall submit a detailed written report of the finding, and any additional necessary supporting documentation, to the State Purchasing Officer. A report submitted under this subsection may include a recommendation that the private person or entity be debarred from doing business with the State or a political subdivision thereof. (2007-424, s. 1; 2013-382, s. 9.1(c); 2013-406, s. 1; 2015-241, s. 25.1(a); 2015-268, s. 7.4.)

#### **§ 143-747. Council of Internal Auditing.**

(a) The Council of Internal Auditing is created, consisting of the following members:

- (1) The State Controller who shall serve as Chair.
- (2) The State Budget Officer.
- (3) The Secretary of Administration.
- (4) The Attorney General.
- (5) The Secretary of Revenue.
- (6) The State Auditor who shall serve as a nonvoting member. The State Auditor may appoint a designee.

(b) The Council shall be supported by the Office of State Budget and Management.

(c) The Council shall:

- (1) Hold meetings at the call of the Chair or upon written request to the Chair by two members of the Council.
- (2) Keep minutes of all proceedings.
- (3) Promulgate guidelines for the uniformity and quality of State Agency internal audit activities.
- (4) Recommend the number of internal audit employees required by each State Agency.
- (5) Develop internal audit guides, technical manuals, and suggested best internal audit practices.
- (6) Administer an independent Peer Review system for each State Agency internal audit activity; specify the frequency of such reviews consistent with applicable national standards; and assist agencies with selection of independent peer reviewers from other State Agencies.
- (7) Provide central training sessions, professional development opportunities, and recognition programs for internal auditors.
- (8) Administer a program for sharing internal auditors among State Agencies needing temporary assistance and assembly of interagency teams of internal auditors to conduct internal audits beyond the capacity of a single Agency.
- (9) Maintain a central database of all annual internal audit plans; topics for review proposed by internal audit plans; internal audit reports issued and individual findings and recommendations from those reports.

- (10) Require reports in writing from any State Agency relative to any internal audit matter.
- (11) If determined necessary by a majority vote of the council:
  - a. Conduct hearings relative to any attempts to interfere with, compromise, or intimidate an internal auditor.
  - b. Inquire as to the effectiveness of any internal audit unit.
  - c. Authorize the Chair to issue subpoenas for the appearance of any person or internal audit working papers, report drafts, and any other pertinent document or record regardless of physical form needed for the hearing.
- (12) Issue an annual report including, but not limited to, service efforts and accomplishments of State Agency internal auditors and to propose legislation for consideration by the Governor and General Assembly. (2007-424, s. 1; 2013-406, s. 1.)

**§ 143-748. Confidentiality of internal audit work papers.**

Internal audit work papers are confidential except as otherwise provided in this section or upon subpoena issued by a duly authorized court. A published internal audit report is a public record as defined in G.S. 132-1 to the extent it does not include information which is confidential under State or federal law or would compromise the security of a State Agency. An internal auditor shall maintain for 10 years a complete file of all audit reports and reports of other examinations, investigations, surveys, and reviews conducted under the internal auditor's authority. Audit work papers and other evidence and related supportive material directly pertaining to the work of the internal auditor's office shall be retained in accordance with Chapter 132 of the General Statutes. Unless otherwise prohibited by law and to promote intergovernmental cooperation and avoid unnecessary duplication of audit effort, audit work papers related to released audit reports shall be made available for inspection by duly authorized representatives of the State and federal government in connection with some matter officially before them. (2013-406, s. 1.)

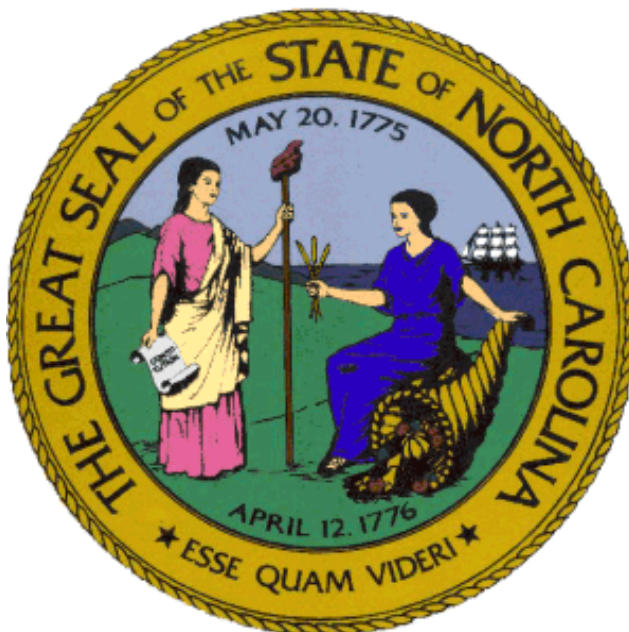
**§ 143-749. Obstruction of audit.**

It shall be a Class 2 misdemeanor for any officer, employee, or agent of a State Agency subject to the provisions of this Article to willfully make or cause to be made to a State Agency internal auditor or the internal auditor's designated representatives any false, misleading, or unfounded report for the purpose of interfering with the performance of any audit, special review, or investigation or to hinder or obstruct the State Agency internal auditor or the internal auditor's designated representatives in the performance of their duties. (2013-406, s. 1.)



# **NORTH CAROLINA COUNCIL OF INTERNAL AUDITING**

## **Statewide Internal Audit Manual**



Guidelines, Policies, and Procedures for Statewide  
Internal Auditing

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## **INTRODUCTION**

The Central Internal Audit Office prepares the State Internal Audit Manual in conjunction with the Council of Internal Auditing (Council) for the State of North Carolina for use by state departments, agencies and institutions in planning and conducting internal audits. The foundation for this manual is the North Carolina Internal Audit Act and Professional Practice Framework (Standards) issued by the Institute for Internal Auditors (IIA). This Manual is for guidance; internal auditors should use professional judgment in the application of these guidelines and if appropriate, follow Government Auditing Standards. It is the responsibility of department management and their internal audit staffs to acquaint themselves with the guidelines in this Manual.

The Manual is divided into seven major sections:

1. Internal Audit Act
2. Internal Audit Participation and Application
3. Internal Audit Organization
4. Audit Process
5. Professional Proficiency
6. Quality Assurance
7. Glossary

There are several features that should facilitate referencing and navigating throughout the Manual. First, there is a table of contents at the beginning that will assist users with quick referencing. Second, specific General Statute citations are referenced throughout the Manual and the online version includes direct links to the appropriate General Statute. Third, in the online version are direct links to other sites for useful information and documents. Finally, all guidelines are referenced to the IIA Standard and Practice Advisory. IIA Practice Advisories help interpret the IIA Standards and can provide additional assistance when implementing the requirements of this manual.

All revisions, supplements and deletions to the Manual will be issued through the Council of Internal Auditing. Departmental officials and their staffs should maintain a current version of the Manual that will be updated online periodically by the Central Internal Audit Office. The header at the top of each page in the Manual reflects the effective date of this version of the Manual and the date of the most recent updates to this version.

Any exceptions to the guidelines stated in the Internal Audit Manual, except those exceptions expressly delegated, must be approved by the Council of Internal Auditing. Written requests for exceptions should be submitted to the Council for approval.

These policies may be superseded by the Council of Internal Auditing bulletins or State agency policies as long as they conform to the basic principles of the State Internal Audit Manual and the IIA Standards. A Central Internal Audit Office Staff Directory is

available on the Office of Budget and Management's website under the "About OSBM" on the ribbon on the OSBM landing page.

Questions, comments, or suggestions concerning the Internal Audit Guidelines may be sent to [InternalAuditInfo@osbm.nc.gov](mailto:InternalAuditInfo@osbm.nc.gov) or you can call 984-236-0600. Periodically, the Council of Internal Auditing will revise the Internal Audit Manual to reflect policy and procedure changes and to make the Internal Audit Manual more user-friendly.

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## **1.0 ARTICLE 79 – INTERNAL AUDIT ACT**

### **§ 143 745. Definitions; intent; applicability.**

(a) For the purposes of this section:

- (1) "Agency head" means the Governor, a Council of State member, a cabinet secretary, the President of The University of North Carolina, the President of the Community College System, the State Controller, and other independent appointed officers with authority over a State agency.
- (2) "State agency" means each department created pursuant to Chapter 143A or 143B of the General Statutes, and includes all institutions, boards, commissions, authorities, by whatever name, that is a unit of the executive branch of State government, including The University of North Carolina, Community Colleges System Office. The term does not include a unit of local government.

(b) This Article applies only to a State agency that:

- (1) Has an annual operating budget that exceeds ten million dollars (\$10,000,000);
- (2) Has more than 100 full-time equivalent employees; or
- (3) Receives and processes more than ten million dollars (\$10,000,000) in cash in a fiscal year.

### **§ 143 746. Internal auditing required.**

(a) Requirements. – A State agency shall establish a program of internal auditing that:

- (1) Promotes an effective system of internal controls that safeguards public funds and assets and minimizes incidences of fraud, waste, and abuse.
- (2) Determines if programs and business operations are administered in compliance with federal and state laws, regulations, and other requirements.
- (3) Reviews the effectiveness and efficiency of agency and program operations and service delivery.
- (4) Periodically audits the agency's major systems and controls, including:
  - a. Accounting systems and controls.
  - b. Administrative systems and controls.
  - c. Information technology systems and controls.

(a1) Key Performance Indicators and Criteria. – In addition to the requirements of subsection (a) of this section, each agency head shall be responsible for ensuring that agency's internal audit unit meets the required key indicators and criteria established by the Council under G.S. 143-747(c)(3a).

- (b) Internal Audit Standards. – Internal audits shall comply with current Standards for the Professional Practice of Internal Auditing issued by the Institute for Internal Auditors or, if appropriate, Government Auditing Standards issued by the Comptroller General of the United States. Each agency head shall annually certify to the Council that the audit plan was developed, and the audit reports were conducted and reported in accordance with required standards.
- (c) Appointment and Qualifications of Internal Auditors. – Any State employee who performs the internal audit program shall meet the minimum qualifications for internal auditors established by the Office of State Human Resources, in consultation with the Council of Internal Auditing.
- (d) Director of Internal Auditing. – The agency head shall appoint a Director of Internal Auditing who shall report to, as designated by the agency head, (i) the agency head, (ii) the chief deputy or chief administrative assistant, of staff, or (iii) the agency governing board, or subcommittee thereof, if such a governing board exists. The Director of Internal Auditing shall be organizationally situated to avoid impairments to independence as defined in the auditing standards referenced in subsection (b) of this section.
- (e) If a State agency has insufficient personnel to comply with this section, the Office of State Budget and Management shall provide technical assistance.
- (f) Reporting Fraudulent Activity. – If an internal audit conducted pursuant to this section results in a finding that a private person or entity has received public funds as a result of fraud, misrepresentation, or other deceptive acts or practices while doing business with the State agency, the internal auditor shall submit a detailed written report of the finding, and any additional necessary supporting documentation, to the State Purchasing Officer. A report submitted under this subsection may include a recommendation that the private person or entity be debarred from doing business with the State or a political subdivision thereof.

**§ 143 747. Council of Internal Auditing.**

- (a) The Council of Internal Auditing is created, consisting of the following members:
  - (1) The State Controller who shall serve as Chair.
  - (2) The State Budget Officer.
  - (3) The Secretary of Administration.
  - (4) The Attorney General. The Attorney General may appoint a designee.
  - (5) The Secretary of Revenue.
  - (6) The State Auditor who shall serve as a nonvoting member. The State Auditor may appoint a designee.
  - (7) One member appointed by the General Assembly upon the recommendation of the President Pro Tempore of the Senate pursuant to G.S. 120-121. The member appointed must be a certified public accountant licensed in this State who has experience with internal auditing and is in good standing with the North Carolina State Board of

Certified Public Accountant Examiners. The member shall be appointed for a term of four years and shall serve until a successor is appointed. A vacancy for a member appointed under this subdivision shall be filled by the appointing authority set forth in this subdivision to serve the remainder of the unexpired term.

- (8) One member appointed by the General Assembly upon the recommendation of the Speaker of the House of Representatives pursuant to G.S. 120-121. The member appointed must be a certified public accountant licensed in this State who has experience with internal auditing and is in good standing with the North Carolina State Board of Certified Public Accountant Examiners. The member shall be appointed for a term of four years and shall serve until a successor is appointed. A vacancy for a member appointed under this subdivision shall be filled by the appointing authority set forth in this subdivision to serve the remainder of the unexpired term.
- (a1) The Council shall hire an Executive Director as selected by a majority of the Council. The Executive Director shall serve at the will of the Council and be exempt from the provisions of the North Carolina Human Resources Act under Chapter 126 of the General Statutes.
- (a2) The Council shall hire two full-time employees, as selected by a majority of the Council, to provide assistance to the Executive Director and to other staff of the Council of Internal Auditing. The employees shall perform any duties delegated by the Executive Director, serve at the will of the Council, and are exempt from the provisions of the North Carolina Human Resources Act under Chapter 126 of the General Statutes.
- (b) The Council including the position of Executive Director, shall be supported by the Office of State Budget and Management.
- (c) The Council shall:
  - (1) Hold meetings at the call of the Chair or upon written request to the Chair by two members of the Council.
  - (2) Keep minutes of all proceedings.
  - (3) Promulgate guidelines for the uniformity and quality of State agency internal audit activities.
  - (3a) Establish required minimum key performance indicators and criteria that comply with the Professional Practice of Internal Auditing issued by the Institute for Internal Auditors.
  - (4) Recommend the number of internal audit employees required by each State agency.
  - (5) Develop internal audit guides, technical manuals, and suggested best internal audit practices.
  - (6) Administer an independent peer review system for each State agency internal audit activity; specify the frequency of such reviews consistent with applicable national standards; and assist agencies with selection of independent peer reviewers from other State agencies.

- (7) Provide central training sessions, professional development opportunities, and recognition programs for internal auditors.
- (8) Administer a program for sharing internal auditors among State agencies needing temporary assistance and assembly of interagency teams of internal auditors to conduct internal audits beyond the capacity of a single agency.
- (9) Maintain a central database of all annual internal audit plans; topics for review proposed by internal audit plans; internal audit reports issued and individual findings and recommendations from those reports.
- (10) Require reports in writing from any State agency relative to any internal audit matter.
- (11) If determined necessary by a majority vote of the council:
  - a. Conduct hearings relative to any attempts to interfere with, compromise, or intimidate an internal auditor.
  - b. Inquire as to the effectiveness of any internal audit unit.
  - c. Authorize the Chair to issue subpoenas for the appearance of any person or internal audit working papers, report drafts, and any other pertinent document or record regardless of physical form needed for the hearing.
- (11a) Gather and assess the extent to which State agencies have met the minimum key performance indicators and criteria required under subdivision (3a) of this subsection. The Council shall report its findings to the Joint Legislative Commission on Governmental Operations on October 1, 2022, and annually thereafter.
- (12) Issue an annual report including, but not limited to, service efforts and accomplishments of State agency internal auditors and to propose legislation for consideration by the Governor and General Assembly.

**§ 143-748. Confidentiality of internal audit work papers.**

Internal audit work papers are confidential except as otherwise provided in this section or upon subpoena issued by a duly authorized court. A published internal audit report is a public record as defined in G.S. 132-1 to the extent it does not include information which is confidential under State or federal law or would compromise the security of a State agency. An internal auditor shall maintain for 10 years a complete file of all audit reports and reports of other examinations, investigations, surveys, and reviews conducted under the internal auditor's authority. Audit work papers and other evidence and related supportive material directly pertaining to the work of the internal auditor's office shall be retained in accordance with Chapter 132 of the General Statutes. Unless otherwise prohibited by law and to promote intergovernmental cooperation and avoid unnecessary duplication of audit effort, audit work papers related to released audit reports shall be made available for inspection by duly authorized representatives of the State and federal government in connection with some matter officially before them.

**§ 143-749. Obstruction of audit.**

It shall be a Class 2 misdemeanor for any officer, employee, or agent of a State agency subject to the provisions of this Article to willfully make or cause to be made to a State agency internal auditor or the internal auditor's designated representatives any false, misleading, or unfounded report for the purpose of interfering with the performance of any audit, special review, or investigation or to hinder or obstruct the State agency internal auditor or the internal auditor's designated representatives in the performance of their duties.



## **2.0 INTERNAL AUDIT PARTICIPATION AND APPLICATION**

### **2.1 Internal Audit Participation**

#### **2.1.1 Participation Requirements**

All State agencies that are included in the executive branch of State government are required to comply with the Internal Audit Act if:

- a. The annual operating budget exceeds ten million dollars;
- b. Has more than 100 full-time equivalent employees; or
- c. Receives and processes more than ten million dollars in cash in a fiscal year.

All State agencies that meet the above requirements should appoint a Director of Internal Auditing (director). See Section 3.1.1 for appointment of the director.

Reference: NCGS 143-745

#### **2.1.2 Requirements for using Central Internal Audit Office Staff**

State agencies meeting the following requirements may use the Central Internal Audit Office for internal audit services:

- a. Has an annual operating budget exceeds ten million dollars but is less than seventy million dollars; or
- b. Has less than 100 full-time equivalent employees; or
- c. Receives and processes more than ten million dollars but less than seventy million dollars in cash in a fiscal year; or
- d. Is deemed appropriate by the Council of Internal Auditing.

Reference: NCGS 143-745

#### **2.1.3 Requirements for establishing an Internal Audit Program**

State agencies that meet the requirements as stated in this manual at Section 2.1.1 must establish an internal auditing program. See Section 3.1 of this manual for additional requirements of the internal audit organizational structure.

Reference: NCGS 143-746

## **2.2 Definition of Internal Auditing and Core Principles**

### **2.2.1 Institute of Internal Auditors Definition**

The Institute of Internal Auditors defines internal auditing as:

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

Reference: IIA Standard Definition of Internal Auditing

### **2.2.2 IIA Core Principles**

IIA Core Principles are listed below. Internal auditors may vary with their approach to these Core Principles.

- 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 organization.
- Is appropriately positioned and adequately resourced.
- Demonstrates quality and continuous improvement.
- Communicates effectively.
- Provides risk-based assurance.
- Is insightful, proactive, and future-focused.
- Promotes organizational improvement.

## **2.3 Application of Internal Auditing**

### **2.3.1 Standards**

Internal audits shall comply with current Standards for the Professional Practice of Internal Audit or, if appropriate, Government Auditing Standards.

Reference: NCGS 143-746(b)

### **2.3.2 Activities**

State agency internal audit programs, at a minimum, should:

- a. Promotes an effective system of internal controls that safeguards public funds and assets and minimizes incidences of fraud, waste, and abuse.
- b. Determines if programs and business operations are administered in compliance with federal and state laws, regulations, and other requirements.
- c. Reviews the effectiveness and efficiency of agency and program operations and service delivery.
- d. Periodically audits the agency's major systems and controls, including:
  1. Accounting systems and controls.
  2. Administrative systems and controls.
  3. Information technology systems and controls

Reference: NCGS 143-746(a)

## 3.0 INTERNAL AUDIT ORGANIZATION

### 3.1 Organizational Status and Job Qualification

#### 3.1.1 Organizational Status

It is important that the director report to a level within the State agency which allows fulfillment of the internal audit program responsibilities. The director will be appointed by the State agency head and report functionally to the State agency head, or their designee or an audit committee (from here in will be called appropriate authority) as described in General Statute 143-746(d) and may report administratively to the State agency head or to those charged with governance.

The director's reporting line is critical to achieve the independence, objectivity and organizational status for an internal audit program to effectively fulfill its obligations. The scope of potential engagements is greatest when the reporting line is at the highest level. The director should not report to any employee or person directly responsible for activities that are subject to internal audit.

The organizational chart should demonstrate the placement of the internal audit program and/or the director. The organizational chart should be provided to the Council of Internal Auditing within 10 days of establishing the internal audit program or after the chart is modified and the modification affects the placement or reporting line of the internal audit program.

Reference: NCGS 143-746(d) and IIA Standard and Implementation Guide 1110,

#### 3.1.2 Job Qualification and Descriptions

Any internal auditor employed by a State agency shall at a minimum meet the requirement set by the North Carolina Office of Human Resources under the internal audit series. **Small internal audit programs (one or two persons) must have at least one Auditor III level.**

Job descriptions for all positions within the internal audit program must be maintained. It is the responsibility of the director to ensure job descriptions are accurate and up-to-date.

Reference: NCGS 143-746(c)

### 3.2 Internal Audit Charter

#### 3.2.1 Establishing an Internal Audit Charter

The purpose, authority, and responsibility of the internal audit program should be formally defined in a charter, consistent with the IIA's Standards for the Professional Practice of Internal Auditing. The nature of assurances and consulting services should be defined in the Charter.

The IIA has provided a model audit charter in 2014. The model audit charter may be used to ensure conformance with Standard 1000. The IIA created and mandated conformance with the core principles in 2016 which must be added to the model audit charter to fully conform with Standard 1000.

Reference: IIA Standard 1000, 1000.A1, 1000.C1, and related Implementation Guides.

### **3.2.2 Review and Approval of Internal Audit Charter**

The written internal audit charter should be discussed and approved by the appropriate authorities. The approval of the charter should be documented to provide a formal agreement about the role and responsibilities of the internal audit program within a State agency. The approved internal audit charter documents the creation of the internal audit program.

The director should periodically assess (minimum annually) whether the purpose, authority, and responsibility, as defined in the charter, continue to be adequate to enable the internal audit program to accomplish its objectives. The result of this periodic assessment should be documented. Any modifications to the internal audit charter should be communicated to the appropriate authorities.

This Internal Audit Charter should be provided to the Council of Internal Auditing within 10 working days after a charter has been established and approved. Whenever the charter is modified, the modified charter should be submitted to the Council of Internal Auditing within 10 working days. Submission is to the common email address: [internalauditinfo@osbm.nc.gov](mailto:internalauditinfo@osbm.nc.gov).

Reference: IIA Standard 1000, 1000.A1, 1000.C1, and related Implementation Guides.

## **3.3 Code of Ethics**

### **3.3.1 Code of Ethics**

All internal auditors will abide by the Code of Ethics and Core Principles established by the Institute of Internal Auditors. The Code of Ethics include Integrity, Objectivity, Confidentiality, and Competency. The Code of Ethics can be found within the Institute of Internal Auditors (IIA), International Professional Practice Framework (the Red Book) or on the IIA website under Standards on the main ribbon.

Reference: IIA Code of Ethics, Core Principles and related Implementation Guides.

## **3.4 Independence and Objectivity**

### **3.4.1 Independence**

Independence is essential to the effectiveness of the internal audit program. This independence is based primarily upon organizational status. Guidelines for organizational status are in Section 3.1 of this manual.

Internal auditors are independent when they can carry out their functions freely and objectively. To be effective in performing internal audits the audit staff must be independent and objective both in fact and appearance.

If the State agency has a governing board the Internal Audit Director must communicate and interact directly with the board. Direct communication can occur during the board meetings and/or private meetings with board members.

Reference: IIA Standard 1100, 1110, 1110.A1 and related Implementation Guides.

### **3.4.2 Objectivity**

Internal auditors should have an impartial, unbiased attitude and avoid conflicts of interest. Internal auditors should not be placed in situations in which they feel unable to make objective professional judgments.

Reference: IIA Standard 1120 and related Implementation Guides.

### **3.4.3 Impairments**

When independence and objectivity is impaired in fact or appearance, the details of the impairment should be disclosed to the appropriate parties. Some instance of impairments to independence and objectivity include, but are not limited to, situation where:

- a. A conflict of interest or bias is present.
- b. A member of the auditor's immediate or close family member exists.
- c. An operating authority or responsibility is assumed.
- d. An operating authority or responsibility was assumed within the last year.
- e. A direct or significant/material indirect financial interest exists.

To minimize auditor impairment, internal audit programs should establish policies and procedures to identify report and resolve impairments to independence and objectivity. The policy and procedure should address conflict of interest issues including acceptance of gifts and entertainment.

Auditors should refrain from conducting assurance engagements if there is independence or objectivity impairments. An auditor can conduct consulting services; however, all potential impairments must be disclosed to the State agency's management prior to accepting the engagement.

State agencies may request services from the Council's Central Internal Audit Office to mitigate any impairments or conflicts to independence or objectivity.

Reference: IIA Standard 1130, 1130.A1, 1130.A2, 1130.C1, and 1130.C2 related Implementation Guides.

#### **3.4.4 Interference**

The internal audit program must be free from interference in determining the scope of audit work, performing work, and communicating results. Internal Audit Director must report any alleged interference to the Council of Internal Auditing immediately. This includes, but is not limited to State agency's officer, employee, or agent: hindering the identification of the audit universe or the development of a risk-based audit plan, overrule or modify audit reports, limiting access to records and/or employees, and willfully make false, misleading, or unfounded statements for the purpose of interfering with the performance of any audit.

Reference: IIA Standard 1110.A1 and NCGS 143-749

## **4.0 AUDIT PROCESS**

### **4.1 Managing Internal Audit Programs**

#### **4.1.1 Managing**

The director is responsible for properly managing the internal audit program so that audit work:

- a. Fulfills the purpose, authority, and responsibility described in the Charter.
- b. Uses resources efficiently and effectively.
- c. Complies with the North Carolina Internal Audit Act and Standards for the Professional Practice of Internal Auditing or, if appropriate, Government Auditing Standards.

Reference: IIA Standard 2000 and related implementation guides.

#### **4.1.2 Planning**

The director should establish a risk-based audit plan to determine the priorities of the internal audit program. The audit plan should:

- a. Be consistent with the internal audit program's Charter.
- b. Be based on a risk assessment.
- c. Consider available resources.
- d. Consider management request.

Consulting service engagements should be considered if the engagement may potentially improve management of risks, add value, and/or improve the organization operations. Accepted engagements must be included in the plan.

The audit plan and resource requirements should be provided to the appropriate authorities for review and approval. An electronic copy of the Audit plan must be submitted electronically through the central database portal by September 30 of each year.

Reference: IIA Standard 2010, 2010.A1, 2010.C1 and related implementation guides.

#### **4.1.3 Risk-Based Audit Plan Attestation**

It is the responsibility of the Head of the agency to annually certify to the Council of Internal Auditing that the audit plan was developed in accordance with required standards. The director must hold a meeting with the Head of the agency to obtain this attestation. The director must determine how much information the Head of the agency will need to certify the risk-based audit plan conforms with the standards.

The attestation form can be found in the Central Database's template library. The form must be completed and submitted electronically through the Central Database portal no later than September 30 of each year.

#### **4.1.4 Resource Management**

It is the responsibility of the director to ensure that internal audit resources are appropriate, sufficient, and effectively deployed. Resource limitations that impact the plan should be reported to the appropriate authority within the State agency, preferably to the Head of the agency.

Reference: IIA Standard 2030 and related implementation guides.

#### **4.1.5 Policies and Procedures**

The director is responsible for establishment of internal audit policies and procedures to guide the internal audit program activities. Policies and procedures should, at a minimum, comply with this manual, IIA Standards, and other laws, rules and regulations.

The purpose of policies and procedures are to ensure consistency in with the program and accomplishment of goals/objectives. The depth and breath of policies and procedures can vary between state agency depending on the size of the internal audit program. It is recommended that the policies and procedures address each major standard within the Institute of Internal Auditors International Professional Practice Framework.

Reference: IIA Standard 2040 and related implementation guides.

#### **4.1.6 Coordination**

The director should share appropriate information and coordinate activities with other internal and external providers of relevant assurance and consulting services to ensure proper coverage and minimize duplication of efforts. Internal audit programs should not duplicate the work of external auditors but instead should rely on the work of the external auditor. When relying on the work of others, internal auditors should take sufficient steps to satisfy acceptability of the third party's work.

Reference: IIA Standard 2050 and related implementation guides.

#### **4.1.7 Reporting Requirements**

The director should report periodically to the appropriate authority on the internal audit activities and performance relative to its audit plan. Any deviations from the approved audit plan and the reasons for the deviations should be reported.

Each State agency is required to submit the approved audit plan and the risk-based audit plan attestation to the Council of Internal Auditing. The audit plan and attestation will be submitted electronically through the Central Database portal no later the September 30 of each year.

Each Director is required to collaborate with Council staff during the development of the annual internal audit service efforts and accomplishments report.

Reference: NCGS 143-747(c)(9) and NCGS 143-747(c)(10) and related implementation guides.



## **4.2 Nature of Work**

### **4.2.1 Risk Management**

The internal audit program should assist the State agency by identifying and evaluating significant exposures to risk and contribute to the improvement of risk management and control systems. The internal audit program should monitor and evaluate the effectiveness of the State agency's risk management system.

The internal audit program should evaluate risk exposures relating to the State agency's governance, operations, and information systems regarding the:

- a. Reliability and integrity of financial and operational information.
- b. Effectiveness and efficiency of operations.
- c. Safeguarding of assets.
- d. Compliance with laws, regulations, and contracts.

During consulting engagements, internal auditors should address risk consistent with the engagement's objectives and be alert to the existence of other significant risks. Internal auditors should incorporate knowledge of risks gained from consulting engagements into the process of identifying and evaluating significant risk exposures of the State agency.

Reference: IIA Standard 2100 and related implementation guides.

### **4.2.2 Control**

The internal audit program should assist the State agency in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement. Based on the results of the risk assessment, the internal audit program should evaluate the adequacy and effectiveness of controls encompassing the State agency's governance, operations, and information systems. This should include:

- a. Reliability and integrity of financial and operational information.
- b. Effectiveness and efficiency of operations.
- c. Safeguarding of assets.
- d. Compliance with laws, regulations, and contracts.

Internal auditors should ascertain the extent to which operating and program goals and objectives have been established and conform to those of the State agency.

Internal auditors should review operations and programs to ascertain the extent to which results are consistent with established goals and objectives to determine whether operations and programs are being implemented or performed as intended.

Adequate criteria are needed to evaluate controls. Internal auditors should ascertain the extent to which management has established adequate criteria to determine whether objectives and goals have been accomplished. If adequate, internal auditors should use

such criteria in their evaluation. If inadequate, internal auditors should work with management to develop appropriate evaluation criteria.

During consulting engagements, internal auditors should address controls consistent with the engagement's objectives and be alert to the existence of any significant control weaknesses. Internal auditors should incorporate knowledge of controls gained from consulting engagements into the process of identifying and evaluating significant risk exposures of the State agency.

Reference: IIA Standard 2100 and IIA Standard 2130, 2130.A1 - 2130.C2, and related implementation guides.

### **4.2.3 Governance**

The internal audit program should assess and make appropriate recommendations for improving the governance process in its accomplishment of the following objectives:

- a. Promoting appropriate ethics and values within the State agency.
- b. Ensuring effective organizational performance management and accountability.
- c. Effectively communicating risk and control information to appropriate areas of the State agency.
- d. Effectively coordinating the activities of and communicating information among the appropriate authority, external and internal auditors and management.

The internal audit program should evaluate the design, implementation, and effectiveness of the State agency's ethics-related objectives, programs and activities.

The internal audit program should assess whether the information technology governance sustains and supports the State agency's strategies and objectives.

Consulting engagement objectives must be consistent with the overall values and goals of the organization.

Reference: IIA Standard 2100 and related implementation guides.

## **4.3 Engagement Planning**

### **4.3.1 Engagement Planning Consideration**

Internal auditors should develop a written plan for each engagement, including the scope, objectives, timing and resource allocations.

In planning the engagement, internal auditors should consider:

- a. The objectives of the activity being reviewed and the means by which the activity controls its performance.

- b. The significant risks to the activity, its objectives, resources, and operations and the means by which the potential impact of risk is kept to an acceptable level.
- c. The adequacy and effectiveness of the activity's risk management and control systems compared to a relevant control framework or model.
- d. The opportunities for making significant improvements to the activity's risk management and control systems.

Internal auditors must establish an understanding with management about the objectives, scope, respective responsibilities and other management expectations when engaging in consulting activities. When consulting engagements are significant, this understanding should be documented.

Reference: IIA Standard 2200 and related implementation guides.

#### **4.3.2 Engagement Objectives**

Objectives should be established for each engagement. These objectives should reflect the results of a preliminary assessment of the risks relevant to the activity under review. The internal auditor should consider the probability of significant errors, irregularities, noncompliance, and other exposures when developing the engagement objectives.

Adequate criteria are needed to evaluate controls. If management has not established adequate criteria, the internal auditor must work with management to develop appropriate evaluation criteria.

For consulting service engagements, objectives must address governance, risk management and controls processes to the extent agreed upon with management.

Reference: IIA Standard 2200 and related implementation guides.

#### **4.3.3 Engagement Scope**

The scope of the engagement should include consideration of relevant systems, records, personnel, and physical properties, including those under the control of third parties. The engagement scope should be sufficient to satisfy the engagement objectives.

If significant consulting opportunities arise during an assurance engagement, the objectives, scope and responsibilities and other expectations must be formally documented, and the results communicated in accordance with these policies and IIA standards.

Reference: IIA Standard 2200 and related implementation guides.

#### **4.3.4 Engagement Resource Allocation**

Appropriate resources should be determined to achieve engagement objectives. Staffing should be based on an evaluation of the nature and complexity of each engagement, time constraints and available resources.

Reference: IIA Standard 2200 and related implementation guides.

#### **4.3.5 Engagement Work Program**

For each engagement, written work programs should be developed to achieve the engagement objectives. Work programs establish the procedures for identifying, analyzing, and recording information during the engagement. The work program should be approved by the director, in writing, prior to initiating work and any changes to the work programs should be approved by the director in a timely manner.

Reference: IIA Standard 2200, 2240, 2240.A1, 2240.C1, and related implementation guides.

### **4.4 Fieldwork**

#### **4.4.1 Data Gathering and Analysis**

Information should be sufficient, reliable, relevant and useful to achieve the engagement objectives and provide a sound basis for engagement observations and recommendations. Conclusions and engagement results should be based on appropriate analyses and evaluations.

The sufficiency and appropriateness of information and analyses will vary depending on the engagement objectives.

Reference: IIA Standard 2300, 2310, 2320 and related implementation guides.

#### **4.4.2 Working Papers Documentation, Access and Retention**

Relevant information should be documented in the working papers to support the conclusions and engagement results or discontinuance an engagement. Working papers and internal audit reports must be retained (see [Section 4.4.2c](#)). The director should develop policies governing the custody, access and retention of working papers, reports and other related documents for engagements.

a. Documentation

The organization, design and content of working papers may vary depending on the engagement. Working papers may be in the form of paper, tapes, disks, films or other media.

To reduce paper consumption, it is acceptable to provide adequate documentation so an experienced auditor can re-perform the work and arrive at the same conclusion.

Work papers generally:

- i. Aid in the planning performance and review of the engagement.
- ii. Provide the principal support for results.
- iii. Document whether engagement objectives were achieved.
- iv. Support the accuracy and completeness of the work performed.

- v. Provide a basis for the internal audit activity's quality assurance and improvement program.
- vi. Facilitate third-party reviews.

b. Access and Custody

The director should control access to the audit reports, working papers and related documents. Any laws, rules, regulations, policies, or procedures (e.g. HIPPA, Personnel rules, etc...) concerning the confidentiality of sensitive data should be considered when providing third party access to reports. If a State agency has any questions about whether information within internal audit reports are public records or not, the State agency should consult its legal counsel.

Work papers are confidential per G.S.143-748 and are not part of the public records law except as otherwise provided in this section or upon subpoena issued by a duly authorized court. Unless otherwise prohibited by law and to promote intergovernmental cooperation and avoid unnecessary duplication of audit effort, audit work papers related to released audit reports shall be made available for inspection by duly authorized representatives of the State and federal government.

c. Records Retention

Record retention requirements cover internal audit reports, other reports, working papers and any other documents that support any reports observations, conclusions, findings or results. Record retention requirements should be consistent with any pertinent regulatory or other requirements and at minimum reports must be maintained for a minimum of ten years.

Reference: Technical Bulletins and Best Practice TB08-01-02 and TB08-01-03. IIA Standard 2330, 2330.A1, 2330.A2, 2330.C1, and 2330.A2-1 and related implementation guides.

#### **4.4.3 Supervision**

Engagements should be properly supervised to ensure objectives are achieved, quality is assured and staff is developed. Supervision begins with planning and continues through the engagement including follow-up. The extent of supervision will depend on the proficiency and experience of the internal auditors and the complexity of the engagement.

All working papers should be reviewed to ensure the work adequately supports the reports observations, findings, conclusions and results. Supervision can extend to staff training and development, employee performance evaluation, time and expense control and other administrative areas. Appropriate evidence of supervision should be documented.

Reference: IIA Standard 2340 and related implementation guides.

## **4.5 Communicating Results**

### **4.5.1 Criteria for Communicating Results**

All internal audit results should be communicated in a formal manner to the appropriate authority and management once the engagement is completed. The communication, at a minimum, should include the internal audit objectives and scope, as well as applicable conclusions, observations, opinions, and recommendations. Internal auditors are encouraged to acknowledge satisfactory performance identified during the engagement.

The communication may be a report in paper or electronic format. The final report should be signed by the director or designee and include management action plans.

Reference: IIA Standard 2400, 2410, 2410.A1 2410.A2, 2410.A3, 2410.C1, and related implementation guides.

### **4.5.2 Quality of Communications**

Communications should be accurate, objective, clear, concise, constructive, complete, and timely. If a final communication contains a significant error or omission, the director should communicate corrected information to all parties who received the original communication.

Reference: IIA Standard 2420, 2421 and related implementation guides.

### **4.5.3 Use of Conducted in Conformance with Standards**

Report can use the statement “conducted in conformance with *International Standards for the Professional Practice of Internal Auditing*” or in iteration of the statement, only if the results of the quality assurance and improvement program support the statement.

Reference: IIA Standard 2430 and related implementation guides.

### **4.5.4 Engagement Disclosure of Noncompliance with the Standard**

When noncompliance with the Statewide Internal Audit Manual and/or IIA Standards impacts a specific engagement, communication of the results should disclose the:

- a. Standard(s) or Guideline(s) with which full compliance was not achieved.
- b. Reason(s) for noncompliance.
- c. Impact of noncompliance on the engagement.

Reference: IIA Standard 2431 and related implementation guides.

### **4.5.5 Disseminating Results**

The director is responsible for communicating the final results of assurances and consulting service engagements to the appropriate authority and other individuals who can ensure that the results are given due consideration.

The director must submit an electronic copy of all final communications of engagements (reports and letters) to the Council of Internal Auditing within 10 working days of completion. It is the responsibility of the Internal Audit Director to redact all confidential and protected information prior to submitting final engagement communications to the Council of Internal Auditing. If confidential and protected information is not redacted (Confidential means by law information is not subject to the public records act). The reports will be submitted electronically through the central database portal.

Reference: NCGS 143-747(c)(9) and NCGS 143-747(c)(10). Technical Bulletins and Best Practice TB08-05-01. IIA Standard 2440, 2440.A1, 2440.A2, 2440.C1, 2440.C2, and related implementation guides.

#### **4.5.6 Report Attestation**

It is the responsibility of the Head of the agency to quarterly certify to the Council of Internal Auditing that the final communication (report) was developed in accordance with required standards. The director must hold a meeting with the Head of the agency to obtain this attestation. The director must determine how much information the Head of the agency will need to certify that the report issued during the quarter conforms with the standards.

The attestation form can be found in the Central Database's template library. The form must be completed quarterly and listed all reports issued during the quarter. The attestation will be submitted electronically through the Central Database portal no later the last day of the following month.

Quarter	Time Frame	Due Date
1	July 1 to September 30	October 31
2	October 1 to December 31	January 31
3	January 1 to March 31	April 30
4	April 1 to June 30	July 31

#### **4.5.7 Monitoring Progress**

The director should establish a follow-up process to monitor and ensure that management actions have been effectively implemented or that management has accepted the risk of not taking action to mitigate the risk.

When the director believes that senior management has accepted a level of residual risk that may be unacceptable to the state agency, the director should discuss the matter with management. If the matter is not resolved, the director should report the matter to the appropriate authority or to those charged with governance (Board or Head of the state agency).

Reference: IIA Standard 2500, 2500.A1, 2500.C1, 2600 and related implementation guides.

## **5.0 PROFESSIONAL PROFICIENCY**

### **5.1 Proficiency**

#### **5.1.1 Professional Proficiency**

Engagement should be conducted with proficiency to ensure engagement objectives are accomplished. Internal auditors should possess the knowledge, skills and other competencies needed to perform their individual responsibilities. An internal audit program should collectively possess or obtain the knowledge, skills and other competencies needed to perform its responsibilities.

The director is responsible to ensure that the staff assigned to an engagement collectively possesses the necessary knowledge, skills and other competencies to conduct the engagement properly.

Reference: IIA Standard 1200, 1210, 1210.A1, 1210.C1, and related implementation guides.

#### **5.1.2 Fraud**

Internal auditors should have sufficient knowledge to evaluate the risk of fraud and how it is managed by the State agency but are not expected to have the expertise of a person whose primary responsibility is detecting and investigating fraud.

Reference: IIA Standard 1210.A2 and related implementation guides.

#### **5.1.3 Information Technology**

Internal auditors should have knowledge of key information technology risk and controls but are not expected to have the expertise of a person whose primary responsibility is information technology auditing.

Reference: IIA Standard 1210.A3 and related implementation guides.

### **5.2 Due Professional Care**

#### **5.2.1 Due Professional Care**

Internal auditors should apply the care and skill expected of a reasonably prudent and competent internal auditor. Due professional care does not imply infallibility.

The internal auditor should exercise due professional care by considering the:

- a. Extent, nature and timing of work needed to achieve the engagement's objectives.
- b. Relative complexity, materiality, or significance of matters to which assurance procedures are applied.
- c. Adequacy and effectiveness of risk management, control, and governance processes.
- d. Probability of significant errors, irregularities, or noncompliance.



- e. Cost of assurance in relation to potential benefits.

The internal auditor should be alert to the significant risks that might affect objectives, operations, or resources. However, assurance procedures alone, even when performed with due professional care, do not guarantee that all significant risks will be identified.

Reference: IIA Standard 1220, 1220.A1 and related implementation guides.

### **5.2.2 Computer-Assisted Audit Tools**

In exercising due professional care, the internal auditor should consider the use of computer-assisted audit tools and other data analysis techniques.

Reference: IIA Standard 1220.A2 and related implementation guides.

### **5.2.3 Consulting Services**

Internal auditors must exercise due professional care during a consulting engagement by considering the:

- a. Needs and expectations of clients, including the nature, timing, and communication of engagement results;
- b. Relative complexity and extent of work needed to achieve the engagement's objectives; and
- c. Cost of the consulting engagement in relation to potential benefits.

Reference: IIA Standard 1220.C1 and related implementation guides.

## **5.3 Continuing Professional Development**

### **5.3.1 Continuing Professional Development**

Internal auditors should enhance their knowledge, skills, and other competencies through continuing professional development. The internal auditor is responsible for continuing their education to maintain their proficiency. The director is responsible for ensuring that the internal audit program's staff collectively maintains knowledge, skills and other competencies needed to allow the internal audit program to fulfill its responsibilities.

Reference: IIA Standard 1230 and related implementation guides.

### **5.3.2 Types of Continuing Professional Development**

Continuing professional development programs are structured education activities with learning objectives designed to maintain or enhance participants' knowledge, skills and other competencies. Education activities included, but are not limited to:

- a. Membership and participation in professional societies.
- b. Attendance at conferences and seminars.
- c. Completion of college and self study courses.
- d. Participation with in-house training programs.
- e. Participation in research projects.

Reference: IIA Standard 1230 and related implementation guides.

## 6.0 QUALITY ASSURANCE

### 6.1 Quality Assurance Programs

#### 6.1.1 Programs

The director should develop and maintain a quality assurance program that covers all aspects of the internal audit program, embeds quality within each process, and continuously monitors its effectiveness. This program includes periodic internal assessments, ongoing internal monitoring and external assessments.

Each State agency may participate in the external quality assurance program that will be administered by the Council of Internal Auditing. See [Section 6.1.3](#) for more details on the external quality assurance program.

Reference: IIA Standard 1300, 1310 and related implementation guides.

#### 6.1.2 Internal Assessment

Internal assessments should include:

- a. Ongoing reviews of the performance of the internal audit program.
- b. Periodic reviews performed through self-assessment or by other persons within the State agency, with knowledge of internal auditing practices and the IIA Standards.

The Council of Internal Auditing has developed the Self-Assessment Maturity Model (SAMM) which is required to be completed annually by each internal audit program. SAMM includes criteria that comply with the Professional Practice of Internal Auditing issued by the Institute for Internal Auditors. It assists internal audit programs with assessing conformance with IIA Standards and having discussions with the Head of the Agency or administrative report as to conformance with the IIA Standards, resources needs, or improvement planned. To fully conform with Standard 1311 periodic assessment requirement, an internal audit program must conduct a quality review of workpapers which support audit engagements.

The SAMM document is required to be submitted to the Council by September 30, 2022 and on July 15 of each year thereafter. The director must have a conversation with the Head of the agency to allow for the completion of the attestation, prior to submission. The SAMM tool can be found in the Central Database's template library and must be submitted electronically via the Central Database portal.

Reference: IIA Standard 1311 and related implementation guides.

#### 6.1.3 Performance Measures (KPI)

The Council of Internal Auditing has established the following minimum key performance indicators.

- a. Annual audit planned engagements versus actual engagements completed
- b. Management acceptance of recommendations
- c. Internal auditor's productivity time

The first two KPI will be captured in the Central Database portal when internal audit program enters the annual risk-based audit plan and reports.

The template for the productivity time can be found in the Central Database's template library. The template required each internal audit program to list each professional internal auditor and related FTE and the number of hours spent on different activities performed in with the internal audit program. The template must be completed annually and submitted electronically via the Central Database portal by July 15<sup>th</sup> of each year.

#### **6.1.4 External Assessment**

The Council of Internal Auditing administers an independent peer review system (external quality assurance program) for State agencies with an internal audit program. External quality reviews will be conducted, at a minimum, every five years. For newly established internal audit programs, the five-year period begins when the Internal Audit Charter has been established. See Section [3.2 Internal Audit Charter](#) for information related to Audit Charters.

For further details surrounding the Peer Review program administered by the Council, See the Peer Review Manual located on the OSBM's Council of Internal Auditing website.

Internal audit programs that do not use the Council of Internal Auditing peer review program, must submit their final report including the rating and any observations within 30 days of receiving the final report. The report should be emailed to the general internal audit email address: [intenraauditinfo@osbm.nc.gov](mailto:intenraauditinfo@osbm.nc.gov).

Reference: NCGS 143-747(c)(6). IIA Standard 1312 and related implementation guides.

## **6.2 Quality Assurance Report Requirements**

### **6.2.1 Reporting on the External Reviews**

Internal audit programs should communicate the results of the internal assessments and external quality reviews, necessary action plans and successful implementation to the appropriate authority.

Reference: IIA Standard 1320 and related implementation guides.

### **6.2.2 Use of "Conforms with the International Standards for Professional Practices of Internal Auditing"**

An internal audit program can only use the phrase “conforms with the International Standards for Professional Practices of Internal Auditing” if the results of the quality assurance and improvement program support this statement.

Reference: IIA Standard 1321 and related implementation guides.

### **6.2.3 Disclosure of Noncompliance**

There may be instances when full compliance with these guidelines or IIA Standards is not achieved. When noncompliance impacts the overall scope or operation of the internal audit program, disclosure should be made to the appropriate authority.

Reference: IIA Standard 1322 and related implementation guides.

## 7.0 NONCONFORMANCE AND REPORTING

### 7.1 Late or Non-Submission

#### 7.1.1 Timeliness

The items listed in the Table below are required to be submitted to the Council of Internal Auditing (Council) timely. If any of these items are not submitted or are submitted late, the Council will be notified.

Item	Due Date
Annual risk-based audit plans	September 30 each year
Reports (final communication of engagements)	10 days after final report date
Risk-plan attestation	September 30 each year
Report attestation	Quarterly each year as follows: Q1 = October 31 Q2 = January 31 Q3 = April 30 Q4 = June 30
Self-assessment and Maturity Model (SAMM)	September 30, 2022. July 15, 2023 each year thereafter
Productivity tool	July 15 each year

#### 7.1.2 Non-Conformance with the Standards

The SAMM tool must be completed annually. The results will be reported to the Council of Internal Auditing and included in the annual activity report.

External Quality Assurance Reviews (QAR) must be completed every five years. The results of each review will be reported to the Council of Internal Auditing and included in the annual activity report.

### 7.2 Corrective Action Plan

#### 7.1.1 Development of the Corrective Action Plan

The director will be required to develop a corrective action plan to address nonconformance related to nonconformance with the standards or any other Council of Internal Auditing requirement. This includes addressing results of the SAMM tool or QAR that do not generally conform to the standards; chronic late submission; and/or lack of submitting required documents.

Corrective action plans should be realistic and achievable. It should set timelines and milestones for moving toward conformance with the standards or conforming with submission requirements.

### **7.2.2 Monitoring Corrective Action Plans**

Staff to the Council of Internal Auditing will monitor internal audit program efforts to ensure progress is being made toward conformance with the standards. Staff will monitor the milestone and target dates by contacting internal audit programs to determine if actions are being met. These results will be report to the Council of Internal Auditing.

## **7.3 Reporting Requirements**

### **7.3.1 Internal Audit Director Attending the Council of Internal Auditing Meeting**

Staff to the Council of Internal Auditing will report internal audit programs that are not making good faith efforts to conform with the standards and submit documents timely. Information will be provided during each quarterly Council of Internal Auditing meeting as to efforts to implementing each corrective action plan.

The Council of Internal Auditing may call a director before the Council of Internal Auditing to present their corrective action plan or explain progress or lack of progress made toward implementing the corrective action plan.

### **7.3.2 Head of the Agency Called Before the Council of Internal Auditing**

The Council of Internal Auditing may call the Head of the agency before the Council of Internal Auditing to explain why their internal audit program is not making adequate progress toward implementing the corrective action plan.

### **7.3.3 Failure Implement Corrective Action Plan**

Internal audit programs that do not make adequate progress toward implementing the corrective action plan will be included in the annual internal audit report that is submitted to the Joint Legislative Commission of Governmental Operations.

## **8.0 GLOSSARY**

### **Add Value**

The internal audit program adds value to the organization (and its stakeholders) when it provides objective and relevant assurance, and contributes to the effectiveness and efficiency of governance, risk management, and control processes.

### **Adequate Control**

Present if management has planned and organized (designed) in a manner that provides reasonable assurance that the State agency's risks have been managed effectively and that the State agency's goals and objectives will be achieved efficiently and economically.

### **Assurance Services**

An objective examination of evidence for the purpose of providing an independent assessment on governance, risk management, and control processes for the organization. Examples may include financial, performance, compliance, system security, and due diligence engagements.

### **Appropriate Authority**

The agency head and/or the Board

### **Board**

The highest-level governing body (e.g., a board of directors, a supervisory board, or a board of governors or trustees) charged with the responsibility to direct and/or oversee the organization's activities and hold senior management accountable. Although governance arrangements vary among jurisdictions and sectors, typically the board includes members who are not part of management. If a board does not exist, the word "board" in the Standards refers to a group or person charged with governance of the organization. Furthermore, "board" in the Standards may refer to a committee or another body to which the governing body has delegated certain functions (e.g., an audit committee).

### **Charter**

The charter of the internal audit program is a formal written document that defines the activity's purpose, authority, and responsibility. The charter should (a) establish the internal audit program's position within the State agency; (b) authorize access to records, personnel, and physical properties relevant to the performance of engagements; and (c) define the scope of internal audit program.

### **Code of Ethics**

The Code of Ethics are Principles relevant to the profession and practice of internal auditing, and Rules of Conduct that describe behavior expected of internal auditors. The

Code of Ethics applies to both parties and entities that provide internal audit services. The purpose of the Code of Ethics is to promote an ethical culture in internal auditing.

**Compliance**

Conformity and adherence to policies, plans, procedures, laws, regulations, contracts, or other requirements.

**Conflict of Interest**

Any relationship that is, or appears to be, not in the best interest of the State agency. A conflict of interest would prejudice an individual's ability to perform his or her duties and responsibilities objectively.

**Consulting Services**

Advisory and related client service activities, the nature and scope of which are agreed with the client, are intended to add value and improve an organization's governance, risk management, and control processes without the internal auditor assuming management responsibility. Examples include counsel, advice, facilitation, and training.

**Consulting Services**

Advisory and related client service activities, the nature and scope of which are agreed with the client and which are intended to add value and improve an State agency's governance, risk management, and control processes without the internal auditor assuming management responsibility. Examples include counsel, advice, facilitation and training.

**Control**

Any action taken by management, the board, and other parties to manage risk and increase the likelihood that established objectives and goals will be achieved. Management plans, organizes, and directs the performance of sufficient actions to provide reasonable assurance that objectives and goals will be achieved.

**Control Environment**

The attitude and actions of the board and management regarding the significance of control within the State agency. The control environment provides the discipline and structure for the achievement of the primary objectives of the system of internal control.

The control environment includes the following elements:

- a. Integrity and ethical values.
- b. Management's philosophy and operating style.
- c. Organizational structure.
- d. Assignment of authority and responsibility.
- e. Human resource policies and practices.
- f. Competence of personnel.

**Control Processes**



The policies, procedures, and activities that are part of a control framework, designed to ensure that risks are contained within the risk tolerances established by the risk management process.

### **Core Principles for the Professional Practice of Internal Auditing**

The Core Principles for the Professional Practice of Internal Auditing are the foundation for the International Professional Practices Framework and support internal audit effectiveness.

### **Director or Internal Audit Director**

Director describes the role of a person in a senior position responsible for effectively managing the internal audit activity in accordance with the internal audit charter and the mandatory elements of the International Professional Practices Framework. The specific job title and/or responsibilities of the chief audit executive may vary across organizations. internal auditor, and internal audit director.

### **Engagement**

A specific internal audit assignment, task, or review activity, such as an internal audit, Control Self-Assessment review, fraud examination, or consultancy. An engagement may include multiple tasks or activities designed to accomplish a specific set of related objectives.

### **Engagement Objectives**

Broad statements developed by internal auditors that define intended engagement accomplishments.

### **Code of Ethics**

The Code of Ethics of The Institute of Internal Auditors (IIA) are Principles relevant to the profession and practice of internal auditing, and Rules of Conduct that describe behavior expected of internal auditors. The Code of Ethics applies to both parties and entities that provide internal audit services. The purpose of the Code of Ethics is to promote an ethical culture in the global profession of internal auditing.

### **Fraud**

Any illegal acts characterized by deceit, concealment or violation of trust. These acts are not dependent upon the application of threat of violence or of physical force. Frauds are perpetrated by parties and organizations to obtain money, property or services; to avoid payment or loss of services; or to secure personal or business advantage.

### **Governance**

The combination of processes and structures implemented by the agency head or board in order to inform, direct, manage and monitor the activities of the State agency toward the achievement of its objectives.

**Head of the Agency (Agency Head)**

The highest-ranking person within a state agency/university responsible for governance of the organization. Examples of the head of the agency at different organizations are: Chancellors at universities; Secretary's at departments, Commissioner, State Controller/Treasurer, Attorney General; Executive Director at Boards, Offices, and Commissions ; Community College System Office President. (This is not an all-inclusive list)

**Impairments**

Impairments to individual objectivity and organizational independence may include personal conflicts of interest, scope limitations, restrictions on access to records, personnel, and properties, and resource limitations (funding).

**Independence**

The freedom from conditions that threaten the ability of the internal audit program to carry out internal audit responsibilities in an unbiased manner.

**Internal Audit Program**

A department, division, team of consultants, or other practitioner(s) that provides independent, objective assurance and consulting services designed to add value and improve an organization's operations. The internal audit program helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management and control processes.

**International Professional Practices Framework**

The conceptual framework that organizes the authoritative guidance promulgated by The Institute of Internal Auditors. Authoritative Guidance is comprised of two categories – (1) mandatory and (2) Strongly recommended.

**Must**

The use of the word "must" in the guidelines represents a mandatory obligation.

**Objectivity**

An unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they have an honest belief in their work product and that no significant quality compromises are made. Objectivity requires internal auditors not to subordinate their judgment on audit matters to that of others.

**Risk**

The possibility of an event occurring that will have an impact on the achievement of objectives. Risk is measured in terms of impact and likelihood.

**Risk Management**

A process to identify, assess, manage, and control potential events or situations, to provide reasonable assurance regarding the achievement of the State agency's objectives.

**Should**

The use of the word "should" in the guidelines represents a mandatory obligation.

**Significance**

The relative importance of a matter within the context in which it is being considered, including quantitative and qualitative factors, such as magnitude, nature, effect, relevance, and impact. Professional judgment assists internal auditors when evaluating the significance of matters within the context of the relevant objectives.

**Standard**

A professional pronouncement promulgated by the Internal Auditing Standards Board that delineates the requirements for performing a broad range of internal audit activities, and for evaluating internal audit performance.

**State Agency**

Each department created pursuant to Chapter 143A or 143B of the General Statutes, the Judicial Branch, the University of North Carolina, and the Department of Public Instruction.

**Work Program**

A document that lists the procedures to be followed during an engagement, designed to achieve the engagement plan.

## 8.0 INTERNAL AUDIT MANUAL REVISIONS

Date of Revision	Topic	Section	Reference
April 8, 2009	January 2009 IIA Standard Revisions	3.2 <a href="#">Internal Audit Charter</a> 3.4.1 <a href="#">Independence</a> 3.4.3 <a href="#">Impairment</a> 4.1.2 <a href="#">Planning CS</a> 4.1.6 <a href="#">Reporting Requirements</a> 4.2.3 <a href="#">Governance</a> 4.3.1 <a href="#">Planning Consideration</a> 4.3.2 <a href="#">Objectives</a> 4.3.3 <a href="#">Engagement Scope</a> 4.5.2 <a href="#">Use of Conforms with Stds</a> 4.5.4 <a href="#">Disseminating Results</a> 5.1.2 <a href="#">Fraud</a> 5.2.3 <a href="#">Due Care Consulting Services</a> 6.2.2 <a href="#">Statement Conforms with Stds</a> 7.0 <a href="#">Boards</a> <a href="#">IPPF</a> <a href="#">Residual Risk</a> <a href="#">Significance</a>	
July 13, 2009	Defining when an internal audit program is established for QAR purposes	3.2.2 <a href="#">Internal Audit Charter</a> 6.1.3 <a href="#">Quality Assurance Programs</a> 4.1.6 <a href="#">Reporting Requirements</a>	Council of Internal Auditing July 8, 2009 Meeting
April 3, 2012	Amendment to Act	<a href="#">143-475 Definitions</a>	S.L.2009-516
October 9, 2013	Amendment to Act	143 745 <a href="#">Definitions; intent; applicability</a> 143 746. <a href="#">Internal auditing required</a> 143 747 <a href="#">Council of Internal Auditing</a> 143-748 <a href="#">Confidentiality of internal audit work papers</a> 143-749 <a href="#">Obstruction of audit</a> 3.4.4 <a href="#">Independence and Objectivity</a> 4.4.2 <a href="#">Fieldwork</a>	S.L.2013-406
January 8, 2014	New hire requirement for small internal audit shops.	3.1. <a href="#">Organizational Status and Job Qualification</a>	Council of Internal Auditing January 8, 2014 Meeting

October 13, 2021	<p>Overall review. Addition of the requirements surrounding the self-assessment maturity model. Removed all links to outside sources. Added IIA implementation guide as a reference</p>	All section	
July 1, 2022	<p>Added new mandated requirement identified in Session Law 2021-180.</p> <p>Removed chapter Table of Contents in all sections.</p>	<p>removal of table of contents all sections</p> <p>Modified sections:</p> <p><a href="#">ARTICLE 79 – INTERNAL AUDIT ACT</a></p> <p><a href="#">2.2 Definition of Internal Auditing and Core Principles</a></p> <p><a href="#">4.1 Managing Internal Audit Programs</a></p> <p><a href="#">4.5 Communicating Results</a></p> <p><a href="#">6.0 Quality Assurance</a></p> <p>Added section <a href="#">7.0 nonconformance and reporting</a></p>	S.L. 2021-180

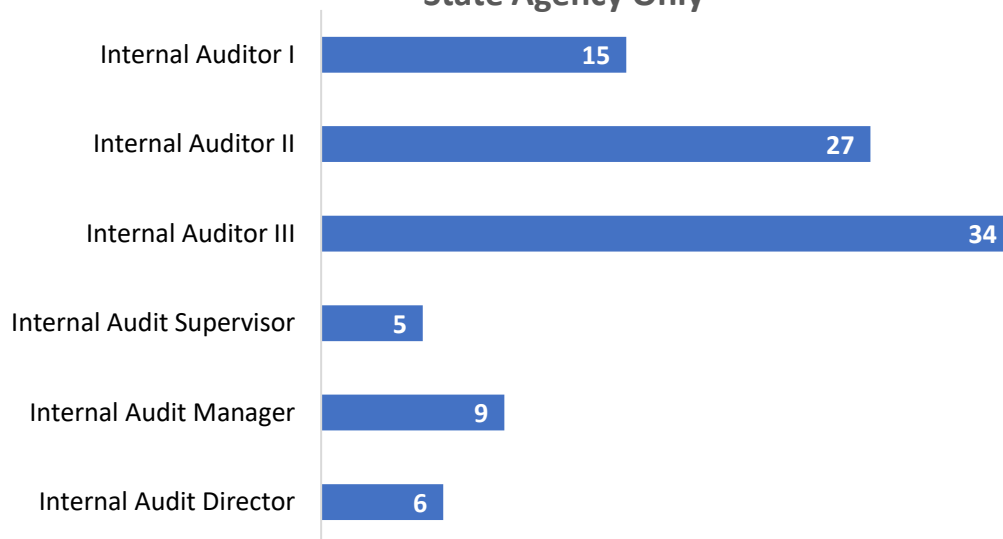


### Summary of Reallocation Efforts

	Positions
<b>IA Positions Identified</b>	<b>96</b>
<b>Reallocated based on OSHR approval</b>	62
<b>Positions not reallocated as of June 1, 2022</b>	
DST Internal Auditor III	1
OSBM, IA Manger, IA II (2)	3
<b>Positions Not in Self-Assessment Process</b>	
SL 2021-180 new positions	2
Vacant at time of assessment	20
No need to assess Internal Audit I	4
DOT - required but did not participate*	2
DOT- creating new compliance unit	2
<b>Total IA Positions Accounted for:</b>	<b>96</b>

\*Working with OSHR to get the two individuals through the self-assessment.

### **Summary When Reallocation Completed State Agency Only**



#### **Highest position in the Internal Audit Program**

- 1 Internal auditor II highest position in agency
- 5 internal auditor III highest position in agency
- 1 internal audit supervisor highest position
- 9 internal audit manager highest position
- 6 internal audit director highest position





Summary of Reallocation Efforts by Agency																				
Classification	CCOS	DACS	DEQ	DHHS	DIT	DMVA	DNCR	DOA	DOC	DOL	DOR	DOT	DPI	DPS	DST	OSBM	SOS	WRC	Grand Total	Agency of Position not Reclassed
Audit Director												1							1	DOT
Audit Manager I												3							3	DOT
Audit Manager II															1	1			2	1 DST, 1 OSBM
Auditor II												5			4	1			10	5 DOT, 4 DST, 1 OSBM
Auditor III												5				1			6	5 DOT, 1 OSBM
Internal Audit Director		1		1	1								1	1					5	
Internal Audit Manager			1	2					1		1			2					7	
Internal Audit Supervisor								1						1					2	
Internal Auditor I								1						12		2			15	
Internal Auditor II		2	1	6		1		1	1		1		1			2			16	
Internal Auditor III	1		1	8	2		1		1	1	1	2	1	6		1	1	1	28	
State Budget Mgmt II																1			1	OSBM plan to reallocate to IT Auditor
Grand Total	1	3	3	17	3	1	1	3	3	1	3	16	3	22	5	9	1	1	96	

Agency work to reallocate positions from old auditor series to new internal auditor series



## Change in Grades

Effective June 1, 2022

Internal Audit Director	Grade	Minimum	1st Q	Midpoint	3rd Q	Maximum
NEW	NC26	\$91,916	\$120,640	\$149,364	\$178,088	\$206,812
OLD	GN21	\$82,630	\$104,916	\$122,402	\$139,887	\$157,373
Change		11%				31%

Internal Audit Manager	Grade	Minimum	1st Q	Midpoint	3rd Q	Maximum
NEW	NC24	\$80,011	\$99,014	\$118,016	\$137,019	\$156,021
OLD	GN19	\$72,172	\$91,637	\$106,910	\$122,183	\$137,456
Change		11%				14%

Internal Audit Supervisor	Grade	Minimum	1st Q	Midpoint	3rd Q	Maximum
NEW	NC22	\$69,236	\$85,680	\$102,123	\$118,567	\$135,010
OLD	GN17	\$65,373	\$81,275	\$93,380	\$105,484	\$117,589
Change		6%				15%

Internal Auditor III	Grade	Minimum	1st Q	Midpoint	3rd Q	Maximum
NEW	NC19	\$61,209	\$72,686	\$84,162	\$95,639	\$107,116
OLD	GN15	\$56,046	\$69,680	\$80,058	\$90,436	\$100,814
Change		9%				6%

Internal Auditor II	Grade	Minimum	1st Q	Midpoint	3rd Q	Maximum
NEW	NC15	\$50,357	\$59,799	\$69,241	\$78,683	\$88,125
OLD	GN13	\$48,051	\$59,740	\$68,637	\$77,534	\$86,431
Change		5%				2%

Internal Auditor I	Grade	Minimum	1st Q	Midpoint	3rd Q	Maximum
NEW	NC12	\$43,500	\$51,656	\$59,813	\$67,969	\$76,125
OLD	GN11	\$42,780	\$52,055	\$58,845	\$65,634	\$72,424
Change		2%				5%



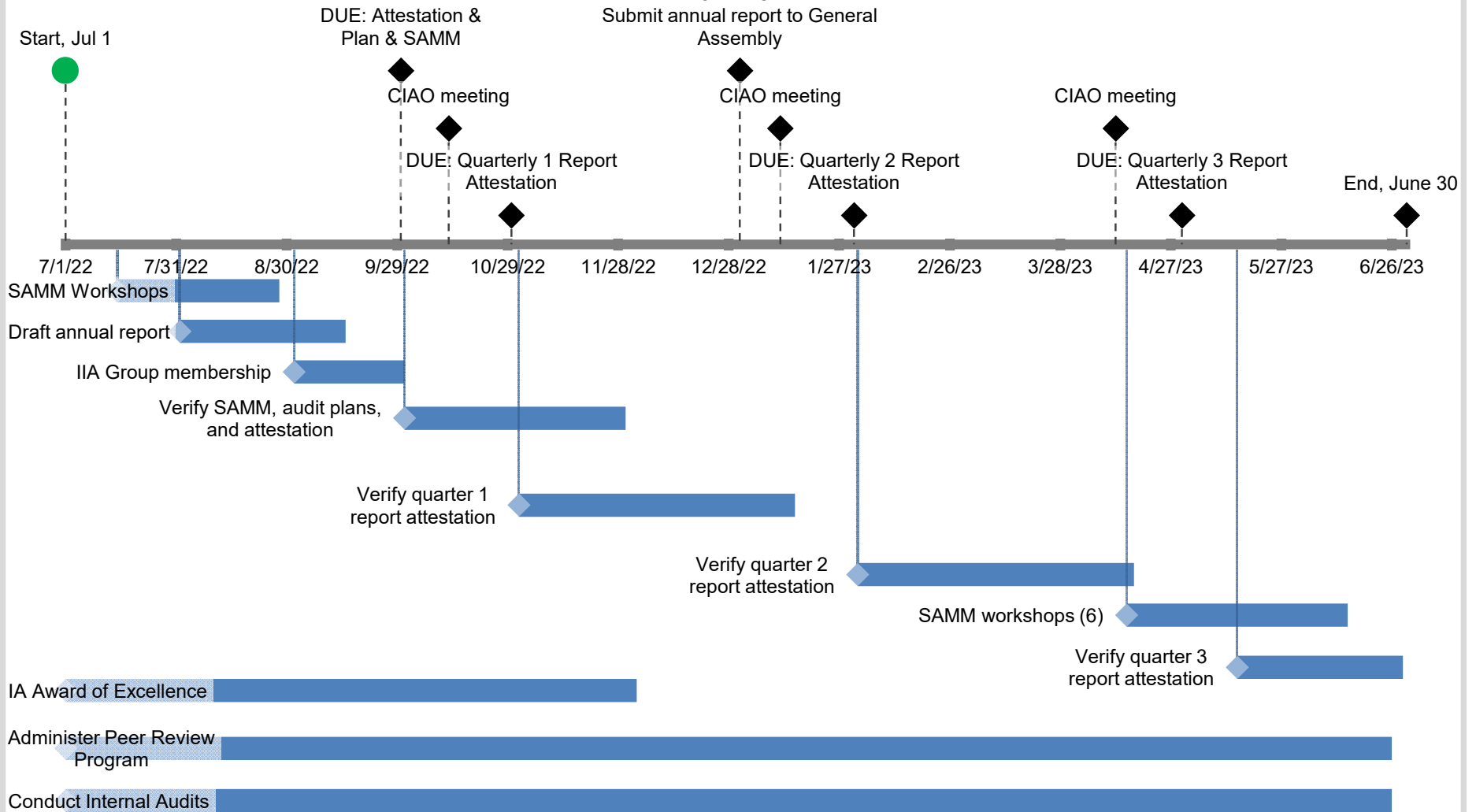
Governor's Recommended Budget							
Agency	Total Number	General Fund			Receipt-Supported*		
		IA II	IA III	Cost	IA II	IA III	Cost
Administrative Office of the Courts	2.00	2	0	\$210,982			
Department of Administration	-						
Department of Agriculture and Consumer Services	1.00	1	0	\$105,491			
Department of Commerce	7.00	7	0	\$732,946			
Department of Natural and Cultural Resources	-						
Department of Environment Quality	-						
Department of Insurance	1.00	1	0	\$105,491			
Department of Justice	2.00	1	1	\$225,712			
Department of Military and Veterans Affairs	1.00	0	1	\$120,548			
Department of Public Instruction	5.00	5	0	\$527,455			
Department of Secretary of State	1.00	0	1	\$121,487			
Department of State Treasurer	8.00				8	0	\$843,928
Department of Transportation	10.00				10	0	\$1,029,223
North Carolina Education Lottery	3.00				3	0	\$316,473
North Carolina Housing Finance Agency	2.00				1	1	\$226,039
Office of State Budget and Management	-						
Office of State Controller	1.50	0.5	1	\$173,294			
Wildlife Resources Commission	1.00	1	0	\$105,491			
Elizabeth City State University	-						
Fayetteville State University	1.00	1	0	\$105,491			
North Carolina Community College Central Office	1.00	1	0	\$105,491			
North Carolina State University	1.00	1	0	\$105,491			
University of North Health Care System	7.00				7	0	\$738,437
University of North Carolina-Asheville	1.00	1	0	\$105,491			
University of North Carolina-Chapel Hill	1.00	1	0	\$105,491			
University of North Carolina-Greensboro	1.00	1	0	\$105,491			
University of North Carolina-System Office	1.50	0.5	1	\$173,294			
Western Carolina University	-						
<b>Grand Total</b>	60.00	25	5	\$3,235,137	29	1	\$3,154,100
<b>Department of Labor (Missed this Agency needs 1 Internal Auditor II)</b>							

Postion for Governor's recommended budget is at Midpoint of the grade.  
 Cost include salary, benefits and \$7,500 operating cost

**Grand total      54      6    \$6,389,237**



## Central Internal Audit Work Plan FY 2022-23



Central Internal Audit Office Timeline for Work Plan  
FY2022-23

Task and Milestones	Start	End	Duration
Self-Assessment Maturity Model (SAMM) Workshops	7/15/2022	8/29/2022	44
Draft Annual Internal Audit Activity Report	8/1/2022	9/15/2022	45
IIA Group Membership	9/1/2022	9/30/2022	30
DUE: Plan Attestation & Audit Plan & SAMM	9/30/2022	9/30/2022	1
Verify SAMM, Audit Plans and Attestation	10/1/2022	11/30/2022	60
Council of Internal Audit (CIAO) Meeting	10/13/2022	10/13/2022	1
DUE: Quarterly 1 Report Attestation	10/30/2022	10/30/2022	1
Verify Quarter 1 Report Attestation	11/1/2022	1/15/2023	75
Submit Annual Internal Audit Activity Report to General Assembly	12/31/2022	12/31/2022	1
CIAO Meeting	1/11/2023	1/11/2023	1
Verify Quarter 2 Report Attestation	2/1/2023	4/15/2023	75
CIAO Meeting	1/11/2023	1/11/2023	1
DUE: Quarterly 2 Report Attestation	1/31/2023	1/31/2023	1
CIAO Meeting	4/12/2023	4/12/2023	1
SAMM Workshops (6)	4/15/2023	5/15/2023	60
DUE: Quarterly 3 Report Attestation	4/30/2023	4/30/2023	1
Verify Quarter 3 Report Attestation	5/15/2023	6/30/2023	45
IA Award of Excellence	7/1/2022	12/15/2022	155
Administer Peer Review Program	7/1/2022	6/30/2023	360
Conduct Internal Audits	7/1/2022	6/30/2023	360



Nels Roseland  
*State Controller, Chair*

Charles Perusse  
*State Budget Director*

Pam Cashwell  
*Secretary of Administration*

Josh Stein  
*Attorney General*

Ron Penny  
*Secretary of Revenue*

Beth A. Wood  
*State Auditor*

**FY2022-23**  
**Council of Internal Auditing**  
**Meeting Schedule**

**July 13, 2022                      9:00 a.m.**

**October 12, 2022                9:00 a.m.**

**January 11, 2023                9:00 a.m.**

**April 12, 2023                   9:00 a.m.**

**Meeting location:**

**116 W. Jones Street, Raleigh**  
**Administration Building 5<sup>th</sup> Floor**  
**Commission Room # 5010**