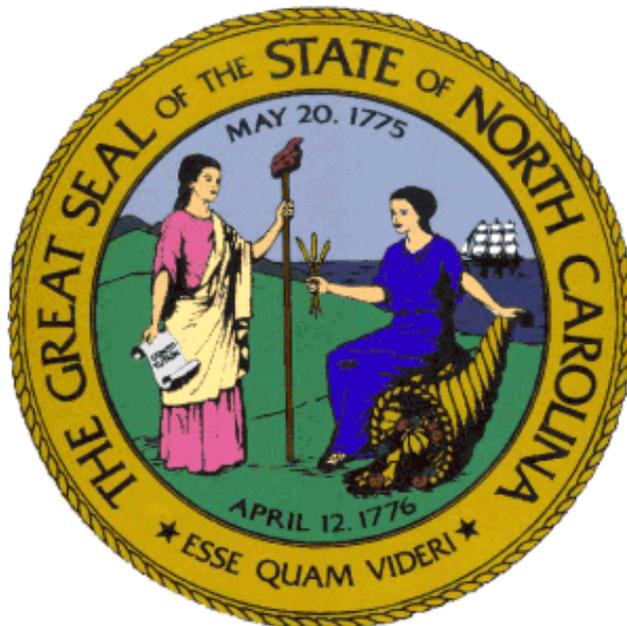


**NORTH CAROLINA
COUNCIL OF INTERNAL
AUDITING**

**Statewide
Internal Audit
Manual**



Guidelines, Policies, and Procedures for Statewide
Internal Auditing

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

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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. The Council of Internal Auditing can not approve exceptions that are codified in Article 79 of Chapter 143 of the General Statute.

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

Effective Date: May 14, 2008

Updated: October 12, 2022

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 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.

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

Effective Date: May 14, 2008

Updated: January 11, 2023

Table of Contents

1.0 ARTICLE 79 – INTERNAL AUDIT ACT	4
§ 143 745. Definitions; intent; applicability.	4
§ 143 746. Internal auditing required.....	4
§ 143 747. Council of Internal Auditing.....	5
§ 143-748. Confidentiality of internal audit work papers.....	7
§ 143-749. Obstruction of audit.	8
2.0 INTERNAL AUDIT PARTICIPATION AND APPLICATION	9
2.1 Internal Audit Participation.....	9
2.2 Definition of Internal Auditing and Core Principles.....	9
2.3 Application of Internal Auditing.....	10
3.0 INTERNAL AUDIT ORGANIZATION.....	12
3.1 Organizational Status and Job Qualification.....	12
3.2 Internal Audit Charter	12
3.3 Code of Ethics.....	13
3.4 Independence and Objectivity.....	13
4.0 AUDIT PROCESS.....	16
4.1 Managing Internal Audit Programs	16
4.2 Nature of Work	18
4.3 Engagement Planning	19
4.4 Fieldwork	21
4.5 Communicating Results	23
5.0 PROFESSIONAL PROFICIENCY	26
5.1 Proficiency	26
5.2 Due Professional Care.....	26
5.3 Continuing Professional Development	27
6.0 QUALITY ASSURANCE.....	28
6.1 Quality Assurance Programs.....	28
6.2 Quality Assurance Report Requirements.....	29
7.0 NONCONFORMANCE AND REPORTING	31
7.1 Late or Non-Submission	31
7.2 Corrective Action Plan.....	31
7.3 Reporting Requirements	32
8.0 OBSTRUCTION OF INTERNAL AUDIT	34
8.1 Purpose.....	34
8.2 Reporting.....	34
8.3 Executive Director Responsibility	34
8.4 Council Responsibility	35
9.0 GLOSSARY	36
9.0 INTERNAL AUDIT MANUAL REVISIONS.....	41

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

Effective Date: May 14, 2008

Updated: January 11, 2023

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

Effective Date: May 14, 2008

Updated: July 1, 2022

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).

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

Effective Date: May 14, 2008

Updated: July 1, 2022

- (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

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

Effective Date: May 14, 2008

Updated: July 1, 2022

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.

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

Effective Date: May 14, 2008

Updated: July 1, 2022

- (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 or before December 31, 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.

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

Effective Date: May 14, 2008

Updated: July 1, 2022

§ 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.

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

Effective Date: May 14, 2008

Updated: July 1, 2022

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:

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

Effective Date: May 14, 2008

Updated: July 1, 2022

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 International Professional Practice Framework

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.

Reference: IIA International Professional Practice Framework

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.

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

Effective Date: May 14, 2008

Updated: July 1, 2022

3. Information technology systems and controls

Reference: NCGS 143-746(a)

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

Effective Date: May 14, 2008

Updated: July 1, 2022

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.

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

Effective Date: May 14, 2008

Updated: July 1, 2022

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.

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.

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

Effective Date: May 14, 2008

Updated: July 1, 2022

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.

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

Effective Date: May 14, 2008

Updated: July 1, 2022

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

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

Effective Date: May 14, 2008

Updated: October 12, 2022

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.

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

Effective Date: May 14, 2008

Updated: October 12, 2022

Reference: NCGS 143-746(1a).

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.

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

Effective Date: May 14, 2008

Updated: October 12, 2022

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

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

Effective Date: May 14, 2008

Updated: October 12, 2022

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.

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

Effective Date: May 14, 2008

Updated: October 12, 2022

- 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.

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

Effective Date: May 14, 2008

Updated: October 12, 2022

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.

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

Effective Date: May 14, 2008

Updated: October 12, 2022

- 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.

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

Effective Date: May 14, 2008

Updated: October 12, 2022

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.

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

Effective Date: May 14, 2008

Updated: October 12, 2022

The director must submit an electronic copy of all final communications of engagements (reports and letters) to the Council of Internal Auditing as shown in the Table below.

Quarter	Reports Issued Date	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

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

Reference: NCGS 143-746(a1).

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.

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

Effective Date: May 14, 2008

Updated: October 12, 2022

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.

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

Effective Date: May 14, 2008

Updated: July 1, 2022

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.

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

Effective Date: May 14, 2008

Updated: July 1, 2022

- 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.

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

Effective Date: May 14, 2008

Updated: January 11, 2021

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 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.

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

Effective Date: May 14, 2008

Updated: January 11, 2021

- 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 15th of each year.

Reference: NCGS 143-747(c)(3) and NCGS 143-747(c)(11a)

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.

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.

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

Effective Date: May 14, 2008

Updated: January 11, 2021

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.

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

Effective Date: October 11, 2022

Updated: October 11, 2022

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	How to Submit
Annual risk-based audit plans	September 30 each year	Central Database SharePoint
Risk-plan attestation		
Reports (final communication of engagements)	Quarterly each year as follows: Q1 = October 31 Q2 = January 31 Q3 = April 30 Q4 = June 30	Central Database SharePoint
Report attestation		
Self-assessment and Maturity Model	July 15 each year	Central Database SharePoint
Productivity tool		
External Quality Assurance Review (only when Council peer review program is not used)	30 days after final report date	Internalauditinfor@osbm.nc.gov

Reference: NCGS 143-747(c)(3), NCGS 143-747(c)(9), and NCGS 143-747(c)(11a)

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. Only when an internal audit function does not use Council's peer review program, the final report, in its entirety must be submitted to the Council. The results of each review will be reported to the Council of Internal Auditing and included in the annual activity report.

Reference: NCGS 143-747(c)(3), and NCGS 143-747(c)(11a)

7.2 Corrective Action Plan

7.2.1 Development of the Corrective Action Plan

The director will be required to develop a corrective action plan to address nonconformance related to the standards or any other Council of Internal Auditing

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

Effective Date: October 11, 2022

Updated: October 11, 2022

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.

Reference: NCGS 143-747(c)(3), and NCGS 143-747(c)(11a)

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.

Reference: NCGS 143-747(c)(3), and NCGS 143-747(c)(11a)

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.

Reference: NCGS 143-747(c)(3), NCGS 143-474(c)(11), and NCGS 143-747(c)(11a)

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.

Reference: NCGS 143-747(c)(3), NCGS 143-474(c)(11), and NCGS 143-747(c)(11a)

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.

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

Effective Date: October 11, 2022

Updated: October 11, 2022

Reference: NCGS 143-747(c)(3), NCGS 143-474(c)(11), NCGS 143-747(c)(11a), and
NCGS 143-474(c)(12)

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

Effective Date: January 11, 2023

Updated: January 11, 2023

8.0 OBSTRUCTION OF INTERNAL AUDIT

8.1 Purpose

The purpose of this section is to define and codify procedures related to the offense “Obstruction of audit” codified at N.C. Gen. Stat. § 143-749. Section 143-749 states:

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.

For the purpose of this section obstruction is an intentional act of blocking or hindering the progress of the internal audit process or deceiving an internal auditor during the performance of their official duties for the purpose of changing the outcome of the audit work or preventing the publication of an audit report. This includes but is not limited to:

- Restricting certain audit topics from inclusion on the risk-based audit plan.
- Intentional attempts to halt an audit report from being published when that report is supported by facts or meets the IIA standards.
- Intentional attempts to withhold existing documents or relevant information during an audit.
- Intentional misrepresentation of documents or misleading conversations to deceive or change the outcome or hinder the completion of an audit.

8.2 Reporting

Any Person can report to the Executive Director of the Council of Internal Auditing any intentional action in which a state agency employee attempts to obstruct an agency’s internal auditor or the internal auditor’s designated representatives in the performance of their official duties.

The person must provide all the facts related to the situation and any documentation that support these facts. Reporting can be accomplished via email, telephone call, or a virtual or in-person meeting.

8.3 Executive Director Responsibility

The Executive Director will review the information reported by the internal audit director. The Executive Director may provide advice to the internal audit director on actions they may take to resolve the issue. The internal auditor director has the discretion

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

Effective Date: January 11, 2023

Updated: January 11, 2023

to follow the advice provided by the Executive Director and work to address the issue on their own or request the Executive Director report this information to the Council.

Should the internal auditor request to have this information reported to the Council, the Executive Director will notify the Council Chair within five business days of the request.

8.4 Council Responsibility

It is the Council's responsibility to hear complaints related to allegations of interference or obstruction of an audit. The Executive Director will bring forth complaints to the Council.

At the discretion of the Council Chair, and upon a motion duly made and adopted at an open meeting, a closed session may be held to hear the information related to an obstruction complaint, as permitted by N.C. Gen. Stat. § 143-318.11(a)(1) (legally confidential information), § 143-318.11(a)(6) (specific personnel matter), and/or § 143-318.11(a) (7) (criminal investigations).

The Council may request the Central Internal Audit Office to review the complaint and bring forth the facts that support or refute the complaint. After hearing the facts, the Council will determine what further action should be taken.

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

Effective Date: May 14, 2008

Updated: January 11, 2023

9.0 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

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

Effective Date: May 14, 2008

Updated: January 11, 2023

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.

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

Effective Date: May 14, 2008

Updated: January 11, 2023

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.

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

Effective Date: May 14, 2008

Updated: January 11, 2023

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.

Obstruction

A willful attempt to stop or hinder the progress of an internal audit engagement, issuance of an internal auditor report, or direct the creation of the internal audit plan. This includes but is not limited to, the denial of or limiting access to documents and people during an active engagement; attempts to stop the issuance of a final report; attempts to

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

Effective Date: May 14, 2008

Updated: January 11, 2023

change or omit observations without just cause; and attempts to drive what engagements can or cannot be included on the audit plan.

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.

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

Effective Date: May 14, 2008

Updated: October 12, 2022

9.0 INTERNAL AUDIT MANUAL REVISIONS

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

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

Effective Date: May 14, 2008

Updated: October 12, 2022

October 13, 2021	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	All section	Change in IIA IPPF and COIA approved for using the SAMM tool
July 13, 2022	Added new mandated requirement identified in Session Law 2021-180. Removed chapter Table of Contents in all sections.	Modified sections: ARTICLE 79 – INTERNAL AUDIT ACT 2.2 Definition of Internal Auditing and Core Principles 4.1 Managing Internal Audit Programs 4.5 Communicating Results 6.0 Quality Assurance Added section 7.0 nonconformance and reporting	S.L. 2021-180 and COIA Meeting July 13, 2022
October 12, 2022	Change due date requirement for report submission	Modified sections: 4.5 Communicating Results 7.1 Late or Non-Submission	COIA Meeting October 12, 2022
January 11, 2022	New section 8 on Obstruction	Added Section 8.0 Obstruction of Internal audit	CIAO Meeting January 11, 2023