

GENERAL ASSEMBLY OF NORTH CAROLINA  
SESSION 2007

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HOUSE DRH30371-LB-319A (4/9)

Short Title: Internal Audit and Efficiency Review. (Public)

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Sponsors: Representative Crawford.

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Referred to:

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1 A BILL TO BE ENTITLED  
2 AN ACT TO ENACT THE NORTH CAROLINA INTERNAL AUDIT ACT.  
3 The General Assembly of North Carolina enacts:

4 **SECTION 1.** Chapter 143 of the General Statutes is amended by adding a  
5 new Article to read:

6 "Article 79.

7 "Internal Auditing.

8 **"§ 143-738. Definitions; intent; applicability.**

9 (a) For the purposes of this section:

10 (1) 'State agency' means each department created pursuant to Chapter  
11 143A or 143B of the General Statutes, the Judicial Branch, The  
12 University of North Carolina, and the Department of Public  
13 Instruction.

14 (2) 'Agency head' means the Governor, a Council of State member, a  
15 cabinet secretary, the Chief Justice of the Supreme Court, the President  
16 of The University of North Carolina, and the Superintendent of Public  
17 Instruction.

18 (b) The General Assembly intends that State agencies perform internal audits to  
19 identify inefficient or ineffective programs and activities, regardless of legal  
20 authorization, and to ensure agencies have designed and implemented an effective  
21 system of internal controls to safeguard public funds and assets. A substantial portion of  
22 internal audit activities by each agency must address efficiency and effectiveness and  
23 cost savings opportunities. The General Assembly will determine effectiveness of  
24 internal auditing by the number and value of cost savings opportunities reported and by  
25 minimal incidence of fraud, waste, and abuse in State agencies.

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

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

6 **"§ 143-739. Internal auditing required.**

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

- 9           (1) An annual audit plan for internal audits of program necessity,  
10 effectiveness, efficiency, economy and cost savings and other  
11 individual audits of systems and controls using risk assessment  
12 techniques to be conducted during the year.  
13           (2) Reviews of the justification or effectiveness of agency programs and  
14 activities notwithstanding the statutory basis of any program or  
15 activity.  
16           (3) Reviews to determine efficiency and economy and cost savings  
17 opportunities.  
18           (4) Periodic audits of the agency's major systems and controls, including:  
19           a. Accounting systems and controls.  
20           b. Administrative systems and controls.  
21           c. Electronic data processing systems and controls.

22           (b) Internal Audit Standards. – Internal audits shall comply with current  
23 Standards for the Professional Practice of Internal Auditing issued by the Institute for  
24 Internal Auditors or, if appropriate, Government Auditing Standards issued by the  
25 Comptroller General of the United States.

26           (c) Appointment and Qualifications of Internal Auditors. – Any internal auditor  
27 employed by a State agency shall at a minimum have a bachelor's degree from an  
28 accredited college or university and:

- 29           (1) Certification or licensure as a certified public accountant, certified  
30 internal auditor, certified fraud examiner, certified information systems  
31 auditor, professional engineer, or attorney; or  
32           (2) A minimum of five years experience in internal or external auditing,  
33 management consulting, program evaluation, management analysis,  
34 economic analysis, industrial engineering, or operations research.

35           (d) Director of Internal Auditing. – The agency head shall appoint a Director of  
36 Internal Auditing who shall report to the agency head and shall not report to any  
37 employee subordinate to the agency head.

38 **"§ 143-740. Council of Internal Auditing.**

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

- 41           (1) The Lieutenant Governor who shall serve as Chair.  
42           (2) The State Controller.  
43           (3) The Secretary of State.  
44           (4) The Attorney General.

- 1           (5) The State Treasurer.  
2           (6) The State Auditor who shall serve as a nonvoting member. The State  
3           Auditor may appoint a designee.  
4       (b) The Council shall be supported by the Office of State Budget and  
5 Management, which shall designate one employee to serve as council administrator.  
6       (c) The Council shall:  
7           (1) Hold its first meeting before September 1, 2007, and thereafter at the  
8           call of the Chair or upon written request to the Chair by two members  
9           of the Council.  
10          (2) Keep minutes of all proceedings.  
11          (3) Promulgate guidelines for the uniformity and quality of State agency  
12          internal audit activities.  
13          (4) Recommend the number of internal audit employees required by each  
14          State agency.  
15          (5) Develop internal audit guides, technical manuals, and suggested best  
16          internal audit practices.  
17          (6) Administer an independent peer review system for each State agency  
18          internal audit activity; specify the frequency of such reviews consistent  
19          with applicable national standards; and assist agencies with selection  
20          of independent peer reviewers from other State agencies.  
21          (7) Provide central training sessions, professional development  
22          opportunities, and recognition programs for internal auditors.  
23          (8) Administer a program for sharing internal auditors among State  
24          agencies needing temporary assistance and assembly of interagency  
25          teams of internal auditors to conduct internal audits beyond the  
26          capacity of a single agency.  
27          (9) Maintain a central database of all annual internal audit plans; topics for  
28          review proposed by internal audit plans; internal audit reports issued  
29          and individual findings and recommendations from those reports.  
30          (10) Require reports in writing from any State agency relative any internal  
31          audit matter.  
32          (11) If determined necessary by a majority vote of the council:  
33               a. Conduct hearings relative to any attempts to interfere with,  
34               compromise, or intimidate an internal auditor.  
35               b. Inquire as to the effectiveness of any internal audit unit.  
36               c. Authorize the Chair to issue subpoenas for the appearance of  
37               any person or internal audit working papers, report drafts, and  
38               any other pertinent document or record regardless of physical  
39               form needed for the hearing.  
40          (12) Issue an annual report including, but not limited to, service efforts and  
41          accomplishments of State agency internal auditors and to propose  
42          legislation for consideration by the Governor and General Assembly."  
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**SECTION 2.** This act becomes effective July 1, 2007.