

GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2007

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HOUSE BILL 1551

Short Title: State Gov't Acctability/Internal Control Act. (Public)

Sponsors: Representatives Underhill, Goforth (Primary Sponsors); Coates and Faison.

Referred to: Ways and Means.

April 18, 2007

A BILL TO BE ENTITLED

1
2 AN ACT TO ENACT THE STATE GOVERNMENTAL ACCOUNTABILITY AND
3 INTERNAL CONTROL ACT; TO ESTABLISH INTERNAL CONTROL
4 STANDARDS FOR STATE GOVERNMENT; TO BOLSTER STATE
5 GOVERNMENT INTERNAL AUDIT ACTIVITIES; AND TO INCREASE
6 FISCAL ACCOUNTABILITY WITHIN STATE GOVERNMENT.

7 Whereas, the people of North Carolina entrust the oversight of public
8 institutions to elected and appointed officials for the purpose of furthering the public
9 interest; and

10 Whereas, the oversight of those public institutions requires an effective and
11 efficient system of internal control providing reasonable assurance that the public's
12 objectives are met; and

13 Whereas, ensuring such a system of internal control requires applicable
14 statewide standards and specific assignment of related responsibilities; and

15 Whereas, for a system of internal control to continue to operate properly,
16 responsibilities for and within the system must be clearly demarked; and

17 Whereas, recent reports of the State Auditor have highlighted the need to
18 increase the presence of internal auditors within State institutions, and past scandals in
19 the private sector have brought increased attention to the need for strong internal
20 controls, effective oversight, and increased accountability within all organizations;

21 Now, therefore,

22 The General Assembly of North Carolina enacts:

23 **SECTION 1.** The General Statutes are amended by adding a new Chapter to
24 read:

"Chapter 143D.

"The State Governmental Accountability and Internal Control Act.

"Article 1.

"General Provisions.

28

1 **"§ 143D-1. Title.**

2 This Chapter shall be known and may be cited as the 'State Governmental
3 Accountability and Internal Control Act.'

4 **"§ 143D-2. Purpose.**

5 The purpose of this Chapter is to ensure a strong and effective system of internal
6 control within State government, to clearly indicate responsibilities related to that
7 system of internal control, and to strengthen internal audit activities within State
8 government. Therefore, it is the intent of the General Assembly in this Chapter to
9 clearly establish responsibilities related to internal control within State government and
10 to ensure that proper internal audit activities occur within State institutions.

11 **"§ 143D-3. Definitions.**

12 The following definitions apply in this Chapter:

- 13 (1) Internal audit. – An independent, objective assurance and consulting
14 activity designed to add value and improve an organization's
15 operations. An internal audit helps an organization accomplish its
16 objectives by bringing a systematic, disciplined approach to evaluate
17 and improve the effectiveness of risk management, control, and
18 governance processes.
- 19 (2) Internal control. – An integral process, effected by an entity's
20 governing body, management, and other personnel, designed to
21 provide reasonable assurance regarding the achievement of objectives
22 related to the effectiveness and efficiency of operations, reliability of
23 financial reporting, and compliance with applicable laws and
24 regulations.
- 25 (3) Principal executive officer. – Executive head of a State agency.
- 26 (4) Principal fiscal officer. – Chief fiscal officer of a State agency.
- 27 (5) State agency. – Any department, institution, board, commission,
28 committee, division, bureau, officer, official, or any other entity for
29 which the State has oversight responsibility, including, but not limited
30 to, any university, mental or specialty hospital, community college, or
31 clerk of court.

32 "Article 2.

33 "Internal Control Responsibilities.

34 **"§ 143D-6. Standards setting responsibilities.**

35 The State Controller, in consultation with the State Auditor, shall establish
36 comprehensive standards, policies, and procedures to ensure a strong and effective
37 system of internal control within State government. These standards, policies, and
38 procedures shall be made readily available to all State agencies, and the State Controller
39 shall make appropriate education efforts to inform relevant State agency staffs of the
40 standards, policies, procedures, and internal control best practices. These efforts shall
41 include the development of training courses, manuals, and other information sources to
42 promulgate internal control standards, policies, procedures, and best practices
43 throughout all State agencies.

44 **"§ 143D-7. Agency management responsibilities.**

1 not necessary, or available, the State Controller, in consultation with the State Auditor,
2 shall issue guidance to agencies regarding effective methods to ensure necessary
3 internal audit functions.

4 All internal audit reports shall be made available to the State Controller and the State
5 Auditor upon request.

6 **"§ 143D-12. Internal auditors.**

7 An internal auditor shall provide independent reviews and analyses of various
8 activities and programs that shall provide management with information to enhance
9 accountability, integrity, and efficiency within the internal auditor's State agency. An
10 internal auditor shall have access to any records, data, or other information of the State
11 agency that the internal auditor believes necessary to carry out the internal auditor's
12 duties.

13 **"§ 143D-13. Internal audit standards.**

14 The State Controller shall, in consultation with the State Auditor, establish internal
15 auditing standards, policies, and procedures for the conduct of internal audit activities
16 within State government that shall conform to applicable and accepted professional
17 internal auditing standards.

18 **"§ 143D-14. Internal audit work papers not public records.**

19 An internal auditor shall maintain, for 10 years, a complete file of all audit reports
20 and reports of other examinations, investigations, surveys, and reviews issued under the
21 internal auditor's authority. Audit work papers and other evidence and related
22 supportive material directly pertaining to the work of that auditor's activity shall be
23 retained in accordance with Chapter 132 of the General Statutes. To promote
24 cooperation and avoid unnecessary duplication of audit effort, audit work papers related
25 to issued audit reports may be, unless otherwise prohibited by law, made available for
26 inspection by duly authorized representatives of the State and federal governments in
27 connection with a matter officially before them. Except as otherwise provided in this
28 section, or upon subpoena issued by a duly authorized court or court official, audit work
29 papers shall be kept confidential and shall not be open to examination or inspection
30 under G.S. 132-6. Audit reports shall be public records to the extent that they do not
31 include information that, under State laws, is confidential and exempt from Chapter 132
32 of the General Statutes or would compromise the security systems of State agencies.

33 **"§ 143D-15. Statewide coordination.**

34 The State Controller shall establish a mechanism for coordinating internal audit
35 resources statewide. This mechanism shall include all of the following:

- 36 (1) Methods to accomplish proper peer review of internal audit functions
37 within State government.
- 38 (2) Continuing professional education programs to ensure internal audit
39 professionals remain highly qualified.
- 40 (3) Creation of opportunities for State internal audit professionals to
41 discuss matters of professional concern.
- 42 (4) Dissemination of statewide internal audit standards, policies, and
43 procedures.

44 "Article 4.

