

GENERAL ASSEMBLY OF NORTH CAROLINA  
SESSION 2011

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HOUSE BILL 393

Short Title: Modify Internal Auditing Statutes. (Public)

Sponsors: Representatives Hastings and McGee (Primary Sponsors).  
For a complete list of Sponsors, see Bill Information on the NCGA Web Site.

Referred to: Government.

March 17, 2011

1 A BILL TO BE ENTITLED  
2 AN ACT TO MODIFY THE INTERNAL AUDITING STATUTES APPLICABLE TO  
3 LARGE STATE DEPARTMENTS AND THE UNIVERSITY SYSTEM.

4 The General Assembly of North Carolina enacts:

5 **SECTION 1.** Article 79 of Chapter 143 of the General Statutes reads as rewritten:

6 "Article 79.

7 "Internal Auditing.

8 **"§ 143-745. Definitions; intent; applicability.**

9 (a) For the purposes of this section:

10 (1) "Agency head" means the Governor, a Council of State member, a cabinet  
11 secretary, the President of The University of North Carolina, and the  
12 Superintendent of Public Instruction.

13 (2) "State agency" means each department created pursuant to Chapter 143A or  
14 143B of the General Statutes, The University of North Carolina, and the  
15 Department of Public Instruction.

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

17 (1) Has an annual operating budget that exceeds ten million dollars  
18 (\$10,000,000);

19 (2) Has more than 100 full-time equivalent employees; or

20 (3) Receives and processes more than ten million dollars (\$10,000,000) in cash  
21 in a fiscal year.

22 **"§ 143-746. Internal auditing required.**

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

24 (1) ~~Implements-Promotes~~ an effective system of internal controls that safeguards  
25 public funds and assets and minimizes incidences of fraud, waste, and abuse.

26 (2) ~~Ensures-Determines if~~ programs and business operations are administered in  
27 compliance with federal and state laws, regulations, and other requirements.

28 (3) Reviews the effectiveness and efficiency of agency and program operations  
29 and service delivery.

30 (4) Periodically audits the agency's major systems and controls, including:

31 a. Accounting systems and controls.

32 b. Administrative systems and controls.

33 c. ~~Electronic data processing-Information technology~~ systems and  
34 controls.



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

5 (c) Appointment and Qualifications of Internal Auditors. – ~~Any internal auditor~~  
6 ~~employed by a State agency shall at a minimum have a bachelor's degree from an accredited~~  
7 ~~college or university and:~~ Any state employee who performs the internal audit function shall  
8 meet the minimum qualifications for internal auditors established by the Office of State  
9 Personnel.

10 (1) ~~Certification or licensure as a certified public accountant, certified internal~~  
11 ~~auditor, certified fraud examiner, certified information systems auditor,~~  
12 ~~professional engineer, or attorney; or~~

13 (2) ~~A minimum of five years' experience in internal or external auditing,~~  
14 ~~management consulting, program evaluation, management analysis,~~  
15 ~~economic analysis, industrial engineering, or operations research.~~

16 (d) Director of Internal Auditing. – The agency head shall appoint a Director of Internal  
17 Auditing who shall report to (i) the agency head and shall not report to any employee  
18 subordinate to the agency head. head, (ii) the chief deputy or chief administrative assistant, or  
19 (iii) the agency governing board, or subcommittee thereof, if such a governing board exists.  
20 The Director of Internal Auditing shall be organizationally situated in a manner that avoids  
21 impairments to independence as defined in the auditing standards referenced in subsection (b)  
22 of this section.

23 **"§ 143-747. Council of Internal Auditing.**

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

25 (1) The State ~~Controller~~ Controller, who shall serve as Chair.

26 (2) The State Budget Officer.

27 (3) The Secretary of Administration.

28 (4) The Attorney General.

29 (5) The Secretary of Revenue.

30 (6) The President of The University of North Carolina, who may appoint a  
31 designee.

32 (7) The State Auditor ~~Auditor~~, who shall serve as a nonvoting member. The  
33 State Auditor may appoint a designee.

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

35 (c) The Council shall:

36 (1) ~~Hold its first meeting before November 1, 2007, and thereafter~~ meetings  
37 at the call of the Chair or upon written request to the Chair by two members of  
38 the Council.

39 (2) Keep minutes of all proceedings.

40 (3) Promulgate guidelines for the uniformity and quality of State agency internal  
41 audit activities.

42 (4) Recommend the number of internal audit employees required by each State  
43 agency.

44 (5) Develop internal audit guides, technical manuals, and suggested best internal  
45 audit practices.

46 (6) Administer an independent peer review system for each State agency  
47 internal audit activity; specify the frequency of such reviews consistent with  
48 applicable national standards; and assist agencies with selection of  
49 independent peer reviewers from other State agencies.

50 (7) Provide central training sessions, professional development opportunities,  
51 and recognition programs for internal auditors.

- 1 (8) Administer a program for sharing internal auditors among State agencies  
2 needing temporary assistance and assembly of interagency teams of internal  
3 auditors to conduct internal audits beyond the capacity of a single agency.  
4 (9) Maintain a central database of all annual internal audit plans; topics for  
5 review proposed by internal audit plans; internal audit reports issued and  
6 individual findings and recommendations from those reports.  
7 (10) Require reports in writing from any State agency relative to any internal  
8 audit matter.  
9 (11) If determined necessary by a majority vote of the council:  
10 a. Conduct hearings relative to any attempts to interfere with,  
11 compromise, or intimidate an internal auditor.  
12 b. Inquire as to the effectiveness of any internal audit unit.  
13 c. Authorize the Chair to issue subpoenas for the appearance of any  
14 person or internal audit working papers, report drafts, and any other  
15 pertinent document or record regardless of physical form needed for  
16 the hearing.  
17 (12) Issue an annual report including, but not limited to, service efforts and  
18 accomplishments of State agency internal auditors and to propose legislation  
19 for consideration by the Governor and General Assembly."

20 **SECTION 2.** This act is effective when it becomes law.