GENERAL ASSEMBLY OF NORTH CAROLINA

SESSION 2007

SESSION LAW 2007-424
HOUSE BILL 1401

AN ACT TO ENACT THE NORTH CAROLINA INTERNAL AUDIT ACT.

The General Assembly of North Carolina enacts:

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

<p align="center">"Article 79.
"Internal Auditing.</p>

"**§ 143-738. Definitions; intent; applicability.**
 (a) For the purposes of this section:
   (1) 'State agency' means 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.
   (2) 'Agency head' means the Governor, a Council of State member, a cabinet secretary, the Chief Justice of the Supreme Court, the President of The University of North Carolina, and the Superintendent of Public Instruction.
 (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.
"**§ 143-739. Internal auditing required.**
 (a) Requirements. – A State agency shall establish a program of internal auditing that:
   (1) Implements an effective system of internal controls that safeguards public funds and assets and minimizes incidences of fraud, waste, and abuse.
   (2) Ensures 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.   Electronic data processing systems and controls.

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

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

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

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

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

"§ 143-740. Council of Internal Auditing.

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

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

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

(c)   The Council shall:

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

        (2)   Keep minutes of all proceedings.

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

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

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

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

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

(8) Administer a program for sharing internal auditors among State agencies needing temporary assistance and assembly of interagency teams of internal auditors to conduct internal audits beyond the capacity of a single agency.

(9) Maintain a central database of all annual internal audit plans; topics for review proposed by internal audit plans; internal audit reports issued and individual findings and recommendations from those reports.

(10) Require reports in writing from any State agency relative to any internal audit matter.

(11) If determined necessary by a majority vote of the council:
   a. Conduct hearings relative to any attempts to interfere with, compromise, or intimidate an internal auditor.
   b. Inquire as to the effectiveness of any internal audit unit.
   c. Authorize the Chair to issue subpoenas for the appearance of any person or internal audit working papers, report drafts, and any other pertinent document or record regardless of physical form needed for the hearing.

(12) Issue an annual report including, but not limited to, service efforts and accomplishments of State agency internal auditors and to propose legislation for consideration by the Governor and General Assembly."

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

In the General Assembly read three times and ratified this the 2nd day of August, 2007.

s/ Beverly E. Perdue
   President of the Senate

s/ Joe Hackney
   Speaker of the House of Representatives

s/ Michael F. Easley
   Governor

Approved 10:15 a.m. this 23rd day of August, 2007