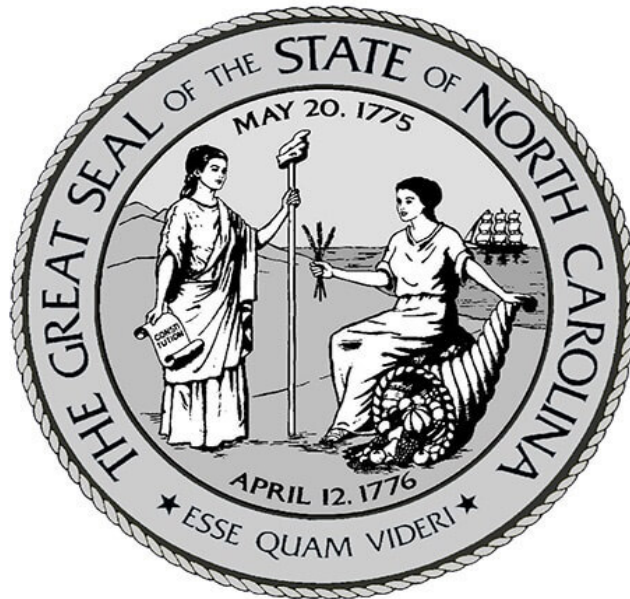


**NORTH CAROLINA
COUNCIL OF INTERNAL AUDITING**

**Statewide
Internal Audit
Manual**



Guidelines, Policies, and Procedures for
Statewide Internal Auditing

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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 staff 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 staff 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 cannot approve exceptions that are codified in Article 79 of Chapter 143 of the General Statute.

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

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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.

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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).

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- (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 Certified Public Accountant Examiners. The member shall be appointed

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

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- (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) No later than November 1 of each year, issue a report that shall include, but not be limited to, service efforts and accomplishments of State agency internal auditors and proposed legislation for consideration by the Governor and General Assembly. The annual report shall be prepared by the Office of State Budget and Management and shall be submitted to the Joint Legislative Oversight Committee on General Government.

§ 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

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made available for inspection by duly authorized representatives of the State and federal government in connection with some matter officially before them.

§ 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.

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 Organizational Status and Appointment of the Director](#) for more information.

Reference: NCGS 143-745

2.1.2 Central Internal Audit Office Assistance

The Central Internal Audit Office shall provide technical assistance to any State agency in the executive branch when resources are insufficient to comply with the Internal Audit Act.

Reference: NCGS 143-746

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 Participation Requirements](#) must establish an internal auditing program. See Section [3.1.1 Organizational Status and Appointment of the Director](#) for more information.

Reference: NCGS 143-746.

2.2 Purpose of Internal Auditing

2.2.1 Purpose Statement

The Institute of Internal Auditors purpose statement is intended to assist internal auditors and stakeholders in understanding and articulating the value of internal auditing. The purpose statement states:

Internal Auditing strengthens the organization's ability to create, protect, and sustain value by providing the board and management with independent, risk-based and objective assurance, advice, insight and foresight.

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Internal auditing enhances the organization's:

- Successful Achievement of its objectives.
- Governance, risk management, and control processes.
- Decision-making and oversight.
- Reputation and credibility with its stakeholders.
- Ability to serve the public interest

Internal audit is most effective when it is:

- It is performed by competent professionals in conformance with the Global Internal Audit Standards, which are set in the public interest.
- The internal audit function is independently positioned with direct accountability to the board.
- Internal auditors are free from undue influence and committed

Reference: IIA Global Standard Domain I.

2.3 Application of Internal Auditing

2.3.1 Standards

Internal audits shall comply with the Global Internal Audit Standards or, if appropriate, Government Auditing Standards. See Section [4.1.2 Conformance with the Global Internal Auditing Standards](#) for more information.

Reference: NCGS 143-746(b) and IIA Global Standard 4.1.

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.
 3. Information technology systems and controls

Reference: NCGS 143-746(a)

3.0 INTERNAL AUDIT ORGANIZATION

3.1 Organizational Status and Job Qualification

3.1.1 Organizational Status and Appointment of the Director

It is important that the director reports 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. See Section [3.4.1 Independence](#) for more information.

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 Global Standard 7.1.

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.**

The internal audit director (director) must maintain and enhance the qualifications and competencies necessary to fulfill the roles and responsibilities expected by the appropriate authorities.

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) and IIA Global Standards 7.2

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3.2 Internal Audit Mandate and Charter

3.2.1 Establishing the Internal Audit Mandate

The internal audit mandate (mandate) is the purpose, authority, and responsibility of the internal audit program. The appropriate authorities should participate in the development of the mandate. The mandate must incorporate either specific elements of the Internal Audit Act or reference the authority of the Internal Audit Act.

Reference: IIA Global Standard 6.1 and NCGS 143 Article 79

3.2.2 Establishing an Internal Audit Charter

The internal audit charter must specify the purpose of internal auditing, commitment to adhering to the Global Standards, the internal audit mandate or refer to the internal audit mandate, the organizational position of the internal audit program, and the reporting relationships.

The audit charter must include any ongoing roles beyond internal auditing, the responsibilities, nature of work and established safeguards.

The IIA has provided a model audit charter that may be used to ensure conformance with the Global Standards.

Reference: IIA Global Standard 6.2 and 7.1

3.2.3 Essential Conditions for Senior Management and the Board

Conversations related to the Global Standard's essential conditions must take place with the appropriate authorities. The discussions should focus on:

- a. The Purpose of Internal Auditing as articulated in Domain I: Purpose of Internal Auditing.
- b. The essential conditions outlined under each of the standards in Domain III: Governing the Internal Audit Function.
- c. The potential impact on the effectiveness of the internal audit function if the board or senior management does not provide the support outlined in the essential conditions.

The nature and frequency of these discussions depend on the circumstances and changes in the State agency. These conversations must be documented.

If either the board or senior management disagrees with one or more of these essential conditions, the Director must emphasize with examples, how absence of the condition(s) may affect the internal audit function's ability to fulfill its purpose or conform with specific standards.

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The director may reach agreement with the board and senior management that one or more of the essential conditions are not necessary to conform with the Standards. In such instances, the director must document:

- The reasons for agreeing that a particular condition is unnecessary.
- Alternative conditions that compensate for the absent conditions, to support the judgments of the board and senior management.

Reference: IIA Global Standard Domain III.

3.2.4 Review and Approval of Internal Audit Mandate and Charter

The written internal audit mandate and charter should be discussed and approved by the appropriate authorities. The approval of the mandate and 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 mandate and 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 fulfill its purpose. The result of this periodic assessment should be documented. Any modifications to the internal audit mandate or 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 Global Standard 6.1, 6.2, and 8.1

3.3 Integrity and Confidentiality

3.3.1 Integrity and Ethics

The integrity of internal auditors is essential to establishing trust and earning respect. Internal auditors must perform their work with honesty and professional courage. Internal auditors must disclose all material facts known to them that, if not disclosed, could affect the State agency's ability to make well-informed decisions.

Internal auditors must be ethical and follow the State agency's ethical policies and when applicable the state laws related to ethics. Internal auditors must not engage or be party to any activity that is illegal and should disclose such incidents to the appropriate authority.

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Reference: IIA Global Standards 1.1, 1.2, and 1.3.

3.3.2 Use and Protection of Information

Each internal auditor is responsible for using and handling information appropriately. Information gathered by internal auditors should be used for the purpose it was intended for and not for personal gain.

Information must be protected whether in digit or paper format. Internal auditors must follow the agency policies on handling, protecting, or destroying information.

Reference: IIA Global Standards 5.1 and 5.2.

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 Organizational Status and Job Qualification](#) of this manual.

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 director must communicate and interact directly with the board. Direct communication can occur during the board meetings and/or private meetings with board members. As defined by the IIA, when a governing board does not exist, the head of the agency is considered the board.

Annually, the director must confirm to the appropriate authority the organizational independence of the internal audit program

Reference: IIA Global Standard 7.1.

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 Global Standard 2.1.

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 authorities. Some instance of

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impairments to independence and objectivity includes, but are not limited to, situation where:

- a. Lacks direct access to the appropriate authorities.
- b. Budget is reduced to a level where Internal Audit cannot fulfill its responsibilities.
- c. Restrictions to access records, data, information, and personnel.
- d. Conflict of interest or bias is present.
- e. A member of the auditor's immediate or close family member exists.
- f. Operating authority or responsibility is assumed.
- g. Operating authority or responsibility was assumed within the last year.
- h. Direct or indirect financial or other personal interests exist.

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 are 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 Global Standards 2.2, 2.3 and 8.1

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. The 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. (See [8.0 Obstruction of Internal Audit](#)).

Reference: IIA Global Standard 2.2, 2.3 and 7.1 and NCGS 143-749.

3.4.5 Disclosure of Impairments

It is important to report impairment to objectivity or independence and this report requirement should be defined in the internal audit policy and procedure manual.

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Internal auditors must report objectivity impairments to the director or their designated supervisor. The director is responsible for determining what action to take related to the impairment that was reported.

The Director must disclose impairment to objectivity or independence to the appropriate authorities.

Reference: IIA Global Standard 2.3 and 7.1

4.0 PROFESSIONAL PROFICIENCY

4.1 Competency

4.1.1 Professional Competency

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 for ensuring that the staff assigned to an engagement collectively possesses the necessary knowledge, skills and other competencies to conduct the engagement properly or can attain the necessary competencies.

The director must maintain and enhance the qualifications and competencies necessary to fulfill the roles and responsibilities

Reference: IIA Global Standard 3.1 and 7.2.

4.1.2 Conformance with the Global Internal Auditing Standards

Internal auditors must possess or develop knowledge of, and internal audit services must be performed in accordance with the Global Standards. Internal audit program's methodologies must be established, documented, and maintained in alignment with the Standards.

Reference: IIA Global Standard 3.1 and 4.1.

4.2 Due Professional Care

4.2.1 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 assessing the nature, circumstances and requirement of service to be provided, including:

- a. The organization's strategy and objectives.
- b. The interest of internal audit stakeholders.
- c. Adequacy and effectiveness of governance, risk management and controls processes.
- d. Extent and timing of work needed to achieve the engagement's objectives.

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- e. Relative complexity, materiality, or significance of matters to which assurance procedures are applied.
- f. Adequacy and effectiveness of risk management, control, and governance processes.
- g. Probability of significant errors, irregularities, or noncompliance.
- h. 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 Global Standard 4.2.

4.2.2 Professional Skepticism

Internal auditors must exercise professional skepticism when planning and performing internal audit services. To exercise professional skepticism, internal auditors must:

- a. Maintain an attitude that includes inquisitiveness.
- b. Critically assess the reliability of information.
- c. Be straightforward and honest when raising concerns and asking questions about inconsistent information.
- d. Seek additional evidence to make a judgment about information and statements that might be incomplete, inconsistent, false, or misleading

Reference: IIA Global Standard 4.3.

4.3 Continuing Professional Development

4.3.1 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 Global Standard 3.2.

4.3.2 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.

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- d. Participation with in-house training programs.
- e. Participation in research projects.

Reference: IIA Global Standard 3.2.

5.0 MANAGING THE INTERNAL AUDIT PROGRAM

5.1 Strategic Planning

5.1.1 Understanding Governance, Risk management and Control Processes

To develop an effective internal audit strategy and plan, the director must understand the organization's governance, risk management, and control processes. To understand governance processes, the director must consider how the organization:

- a. Establishes strategic objectives and makes strategic and operational decisions.
- b. Oversees risk management and control.
- c. Promotes an ethical culture.
- d. Delivers effective performance management and accountability.
- e. Structures its management and operating functions.
- f. Communicates risk and control information throughout the organization.
- g. Coordinates activities and communications among the board, internal and external providers of assurance services, and management.

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- Delivers effective performance management and accountability.
- Structures its management and operating functions.
- Communicates risk and control information throughout the organization.
- Coordinates activities and communications among the board, internal and external providers of assurance services, and management.

Reference: IIA Global Standard 9.1.

5.1.2 Internal Audit Strategy

The director must develop and implement a strategy for the internal audit function that supports the strategic objectives and success of the organization and aligns with the expectations of the appropriate authorities, and other key stakeholders. The strategic plan should include long and short-term objectives.

The plan must be provided to the appropriate authorities for review.

Reference: IIA Global Standard 9.2.

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5.1.3 Policies and Procedures

The director is responsible for the 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 agencies depending on the size of the internal audit program. The policies and procedures must be evaluated and updated as necessary to improve the internal audit program.

Reference: IIA Global Standard 9.3.

5.1.4 Planning

The director should establish a risk-based audit plan to determine the priorities of the internal audit program and support the achievement of the organization's objectives. The audit plan should:

- Consider the internal audit mandate.
- Specify internal audit services that support the evaluation and improvement of the organization's governance, risk management, and control processes.
- Consider coverage of information technology governance, fraud risk, the effectiveness of the organization's compliance and ethics programs, and other high-risk areas.
- Identify the necessary human, financial, and technological resources necessary to complete the plan.
- Be dynamic and updated timely in response to changes in the organization's business, risks, operations, programs, systems, controls, and organizational culture.

The director should review and revise the internal audit plan as necessary and communicate timely to the appropriate authorities:

- a. The impact of any resource limitations on internal audit coverage.
- b. The rationale for not including an assurance engagement in a high-risk area or activity in the plan.
- c. Conflicting demands for services between major stakeholders, such as high-priority requests based on emerging risks and requests to replace planned assurance engagements with advisory engagements.
- d. Limitations on scope or restrictions on access to information.

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 Global Standard 9.4.

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5.1.5 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.

Reference: NCGS 143-746(1a).

5.1.6 Coordination and Reliance

The director must coordinate with internal and external providers of assurance services and consider relying upon their work. Coordination of services minimizes duplication of efforts, highlights gaps in coverage of key risks, and enhances the overall value added by providers.

If unable to achieve an appropriate level of coordination, the chief audit executive must raise any concerns with the appropriate authority.

When relying on the work of others, the director must document the basis for that reliance.

Reference: IIA Global Standard 9.5.

5.2 Resource Management

5.2.1 Financial Resources

The director must develop a budget that enables the successful implementation of the internal audit strategy and achievement of the plan. The budget includes the resources necessary for the internal audit program's operation, including training and acquisition of technology and tools. The director must manage the day-to-day activities of the internal audit function effectively and efficiently, in alignment with the budget.

The director must seek budget approval from the appropriate authorities. The director must communicate promptly the impact of insufficient financial resources to the appropriate authorities.

Reference: IIA Global Standard 10.1.

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5.2.2 Human Resources

The director must establish an approach to recruit, develop, and retain internal auditors who are qualified to successfully implement the internal audit strategy and achieve the internal audit plan.

The director must communicate with the appropriate authorities regarding the appropriateness and sufficiency of the internal audit program's human resources. If the function lacks appropriate and sufficient human resources to achieve the internal audit plan, the director must determine how to obtain the resources or communicate timely to the appropriate authorities the impact of the limitations.

Reference: IIA Global Standard 10.2

5.2.3 Technology Resources

The chief audit executive must strive to ensure that the internal audit has technology to support the internal audit process. The director must regularly evaluate the technology used by the internal audit function and pursue opportunities to improve effectiveness and efficiency.

When implementing new technology, internal auditors should be training in the effective use of the technological resource. The director must collaborate with the organization's information technology and information security functions to implement technological resources properly.

The director must communicate the impact of technology limitations on the effectiveness or efficiency of the internal audit function to the appropriate authorities.

Reference: IIA Global Standard 10.3

5.2.4 Reporting Resource Needs

The director must evaluate whether internal audit resources are sufficient to fulfill the internal audit mandate and achieve the internal audit plan. If not, the director must develop a strategy to obtain sufficient resources and inform the board about the impact of insufficient resources and how any resource shortfalls will be addressed.

Reference: IIA Global Standard 8.2

5.3 Communication

5.3.1 Building Relationships and Communicating with Stakeholders

The director must develop an approach for the internal audit program to build relationships and trust with key stakeholders, including the board, senior management, operational management, regulators, and internal and external assurance providers and other consultants.

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Reference: IIA Global Standard 11.1

5.3.2 Effective Communication

The chief audit executive must establish and implement methodologies to promote accurate, objective, clear, concise, constructive, complete, and timely internal audit communications.

Reference: IIA Global Standard 11.2

5.3.3 Communicating Results

The director must communicate the results of internal audit services to the appropriate authorities periodically and for each engagement as appropriate. The results of internal audit services can include:

- Engagement conclusions.
- Themes such as effective practices or root causes.
- Conclusions at the level of the business unit or organization.

Reference: IIA Global Standard 11.3.

5.3.4 Errors and Omissions

If a final engagement communication contains a significant error or omission, the director must communicate corrected information promptly to all parties who received the original communication.

Significance is determined according to criteria agreed upon with the appropriate authorities.

Reference: IIA Global Standard 11.4

5.3.5 Acceptance of Risk

When the director concludes that management has accepted a level of risk that exceeds the organization's risk appetite or risk tolerance, the matter must be discussed with senior management. If the director determines that the matter has not been resolved by senior management, the matter must be escalated to the appropriate authorities.

Reference: IIA Global Standard 11.5

6.0 AUDIT PROCESS

6.1 Engagement Planning

6.1.1 Engagement Planning Consideration

Internal auditors plan each engagement using a systematic, disciplined approach. The Global Standards, along with the methodologies established by the director, form the foundation of internal auditors' systematic, disciplined approach to planning engagements. Internal auditors are responsible for effectively communicating at all stages of the engagement.

Engagement planning starts with understanding the initial expectations for the engagement and the reason the engagement was included in the internal audit plan. When planning engagements, internal auditors gather the information that enables them to understand the organization and the activity under review and to assess the risks relevant to the activity. The engagement risk assessment allows internal auditors to identify and prioritize the risks to determine the engagement objectives and scope. Internal auditors also identify the criteria and resources needed to perform the engagement and develop an engagement work program, which describes the specific engagement steps to be performed.

Reference: IIA Global Standard Principle 13.

6.1.2 Planning Communication

Internal auditors must communicate the objectives, scope, and timing of the engagement with management.

At the end of an engagement, if management does not agree on the engagement results, attempts should be made to reach a mutual understanding. If a mutual understanding cannot be reached, internal audit is not obligated to change any portion of the engagement results unless there is a valid reason to do so.

Reference: IIA Global Standard 13.1

6.1.3 Engagement Risk Assessment

Internal auditors must develop an understanding of the activity under review to assess the relevant risks. For advisory services, a formal, documented risk assessment may not be necessary, depending on the agreement with relevant stakeholders.

To develop an adequate understanding, internal auditors must identify and gather reliable, relevant, and sufficient information regarding:

- a. The organization's strategies, objectives, and risks relevant to the activity under review.

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- b. The organization's risk tolerance, if established.
- c. The risk assessment supporting the internal audit plan.
- d. The governance, risk management, and control processes of the activity under review.
- e. Applicable frameworks, guidance, and other criteria that can be used to evaluate the effectiveness of those processes.

Internal auditors must review the gathered information to understand how processes are intended to operate. Internal auditors must identify the risks to review by:

- a. Identifying the potentially significant risks to the objectives of the activity under review.
- b. Considering specific risks related to fraud.
- c. Evaluating the significance of the risks and prioritizing them for review.

Reference: IIA Global Standard 13.2.

6.1.4 Engagement Objectives and Scope

Objectives should be established for each engagement. The engagement objectives must articulate the purpose of the engagement and describe the specific goals to be achieved.

The scope must establish the engagement focus and boundaries by specifying the activities, locations, processes, systems, components, time period to be covered in the engagement, and other elements to be reviewed, and be sufficient to achieve the engagement objectives.

Internal auditors must consider whether the engagement is intended to provide assurance or advisory services because stakeholder expectations and the requirements of the Standards differ depending on the type of engagement.

When scope limitations are identified, it must be discussed with management and if not resolved elevated to the appropriate authority.

Engagement objectives and scope may be modified at any point of the engagement work. The director must approve any change to the engagement objectives and scope.

Reference: IIA Global Standard 13.3.

6.1.5 Evaluation Criteria

Internal auditors must identify the most relevant criteria to be used to evaluate the aspects of the activity under review defined in the engagement objectives and scope. If adequate criteria exist, internal auditors must use it for the evaluation. If the criteria are inadequate, internal auditors must identify appropriate criteria through discussion with the appropriate authority.

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The use of evaluation criteria may not be applicable for advisory engagements, depending on the agreement with relevant stakeholders.

Reference: IIA Global Standard 13.4.

6.1.6 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.

Reference: IIA Global Standard 13.5.

6.1.7 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 Global Standard 13.6.

6.2 Fieldwork

6.2.1 Data Gathering and Analysis

Information should be sufficient, reliable, relevant and useful to achieve the engagement objectives and provide a sound basis for engagement observation 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.

For advisory services, gathering evidence to develop observation may not be necessary, depending on the agreement with relevant stakeholders.

Reference: IIA Standard 14.1 and 14.2.

6.2.2 Evaluation of Findings

Each potential engagement finding must be evaluated to determine its significance. To determine the significance of the risk, the likelihood of the risk occurring and the impact the risk may have on the organization's governance, risk management, or control processes must be considered. If the organization is exposed to a significant risk, it must be documented and communicated as a finding.

Findings must be prioritize based on its significance, using methodologies established by the director.

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Reference: IIA Standard 14.3.

6.2.3 Recommendations and Action Plans

Internal auditors must determine whether to develop recommendations, request action plans, or collaborate with management to agree on actions to:

- a. Resolve the differences between the established criteria and the existing condition.
- b. Mitigate identified risks to an acceptable level.
- c. Address the root cause of the finding.
- d. Enhance or improve the activity under review.

Recommendations must be discussed with the management of the activity under review.

Reference: IIA Standard 14.4

6.2.4 Engagement Conclusions

Each engagement must have a conclusion that addresses the engagement objectives.

The conclusion may add context regarding the impacts of the findings within the activity under review and the agency. Advisory engagement conclusions should align with the objectives and scope.

Reference: IIA Standard 14.5

6.2.5 Engagement Documentation, Supervision and Retention

Relevant information should be documented in the working papers to support the conclusions and engagement results or discontinuance an engagement. The analyses, evaluations, and supporting information relevant to an engagement must be documented such that an informed, prudent internal auditor, or similarly informed and competent person, could repeat the work and derive the same engagement results.

Engagement documentation must be reviewed for accuracy, relevance, and completeness. The director must review and approve the engagement documentation.

Reference: IIA Standard 14.6.

6.3 Communicating Results and Monitoring Action Plans

6.3.1 Final Engagement Communication

A final communication must be developed for each engagement and it must include the engagement's objectives, scope, recommendations and/or action plans if applicable, and conclusions. Assurance engagements communication also must include:

- a. The findings and their significance and prioritization.

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- b. An explanation of scope limitations, if any.
- c. A conclusion regarding the effectiveness of the governance, risk management, and control processes of the activity reviewed.
- d. The final communication must specify the individuals responsible for addressing the findings and the planned date by which the actions should be completed.

The final communication must specify the individuals responsible for addressing the findings and the planned date by which the actions should be completed. If corrective action is initiated or completed before the final communication, the actions must be acknowledged in the communication.

The final communication must be reviewed and approved by the director and disseminated to parties who can ensure that the results are given due consideration.

Reference: IIA Global Standard 15.1

6.3.2 Engagement Disclosure of Noncompliance with the Standard

If the engagement is not conducted in conformance with the Standards, the final engagement communication must disclose the following details about the nonconformance:

- a. Standard(s) with which conformance was not achieved.
- a. Reason(s) for nonconformance.
- b. Impact of nonconformance on the engagement findings and conclusions.4.5.2 Quality of Communications
- c. 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 Global Standard 15.1.

6.3.3 Disseminating Results

The director is responsible for communicating the final results of assurances and advisory service engagements to the appropriate authority and other individuals who can ensure that the results are given due consideration.

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

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It is the responsibility of the Director to redact all confidential and protected information prior to submitting final engagement communications to the Council of Internal Auditing. (Confidential means by law information is not subject to the public records act). The reports will be submitted electronically through the Central Database SharePoint site.

Reference: NCGS 143-747(c)(9) and NCGS 143-747(c)(10). Technical Bulletins and Best Practice TB08-05-01. IIA Global Standard 15.1

6.3.4 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).

6.3.5 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.

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 elevate the matter to the appropriate authority or to those charged with governance (Board or Head of the state agency).

Reference: IIA Global Standard 15.2.

7.0 QUALITY ASSURANCE

7.1 Quality Assurance Programs

7.1.1 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 [7.1.5 External Assessment](#) for more details on the external quality assurance program.

Reference: IIA Global Standard Principle 12, and 8.4.

7.1.2 Internal Assessment

Internal assessments should include:

- a. Ongoing monitoring of the internal audit function's conformance with the Standards and progress toward performance objectives.
- a. Periodic self-assessments or assessments by other persons within the organization with sufficient knowledge of internal audit practices to evaluate conformance with the Standards.
- b. Communication with the board and senior management about the results of internal assessments.

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 12.1 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 Global Standard 12.1.

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7.1.3 Performance Measures (KPI)

The Council of Internal Auditing has established the following minimum key performance indicators.

- 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.

The director may select additional performance measures to evaluate the internal audit performance based on the inputs and expectations of the appropriate authorities.

Reference: NCGS 143-747(c)(3), NCGS 143-747(c)(11a) and IIA Global Standard 12.2

7.1.4 Supervision and Development of Competencies

The chief audit executive must establish and implement methodologies for engagement supervision, quality assurance, and the development of competencies. Supervision includes but is not limited to:

- a. Provide internal auditors with guidance throughout the engagement, verify work programs are complete, and confirm engagement workpapers adequately support findings, conclusions, and recommendations.
- b. To assure quality, verify whether engagements are performed in conformance with the Standards and the internal audit function's methodologies.
- c. To develop competencies, provide internal auditors with feedback about their performance and opportunities for improvement.

The extent of supervision required depends on the maturity of the internal audit program, the proficiency and experience of internal auditor, and the complexity of engagements.

The director is responsible for supervising engagements, whether the engagement work is performed by the internal audit staff or by other service providers. Supervisory responsibilities may be delegated to appropriate and qualified individuals, but the director retains ultimate responsibility.

The chief audit executive must ensure that evidence of supervision is documented and retained, according to the internal audit function's established methodologies.

Reference: IIA Global Standard 12.3.

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7.1.5 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 [3.2.2 Establishing an Internal Audit Charter](#) for information related to Audit Charters.

For further details surrounding the Peer Review program administered by the Council, can be found at 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 Global Standard 8.4.

7.2 Quality Assurance Report Requirements

7.2.1 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 8.3 and 12.1.

7.2.2 Disclosure of Noncompliance

There may be instances when full compliance with these guidelines or IIA Global 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 Global Standard 12.1.

8.0 REPORTING AND EDUCATING

8.1 Educate and Collaborate

8.1.1 Understanding the Internal Audit Director Qualifications

The Director is responsible for helping the appropriate authorities to understand the qualifications and competencies of an internal audit director that are necessary to manage the internal audit function. Also, the appropriate authorities must understand the requirements for managing the internal audit program.

Through this understanding, the appropriate authorities will be better suited to appoint a director and help set the mandate.

Reference: IIA Global Standard 7.2.

8.1.2 Education on the Essential Conditions

The director is responsible for educating the appropriate authorities on the Global Standard's Essential Conditions for Senior Management and the Board. The discussions are needed to inform the appropriate authorities about the importance of the essential conditions and to gain alignment among their respective responsibilities. The nature and frequency of these discussions depend on the circumstances and changes in the organization. See Section [3.2.3 Essential Conditions for Senior Management and the Board](#) for more information on this requirement.

Reference: IIA Global Standard Domain 3.

8.1.3 Review Strategy Plan

Periodically, review the internal audit strategic plan with the appropriate authorities. See Section [5.1.2 Internal Audit Strategy](#)

Reference: IIA Global Standard 9.2.

8.1.4 Supporting the Appropriate Authorities

The director must provide information to and coordinate with the appropriate authorities to allow them to support and fulfill their responsibilities related to internal audit.

Reference: IIA Global Standard 6.3.

8.1.5 Collaborating with Council Staff

Each director is required to collaborate with Council staff during the development of the annual internal audit service efforts and accomplishments report.

Reference: NCGS 143-747(c)(12),

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8.2 Reporting Requirements

8.2.1 Annual Reporting Requirements

Annually the Director must report to the appropriate authorities:

- Organizational independence of the internal audit program and incidents where independence may have been impaired, and the actions or safeguards employed to address the impairment. See Section [3.4 Independence and Objectivity](#)
- Internal audit mandate and charter for updates. When updates occur, the appropriate authorities must approve the changes. See Section [3.2.4 Review and Approval of Internal Audit Mandate and Charter](#)
- Annual risk-based plan and progress against the plan. See Section [5.1.4 Planning](#)
- Internal audit program budget to the appropriate authorities and seek approval. See Section [5.2 Resource Management](#)
- Results of the quality assurance improvement program. See Section [7.0 Quality Assurance](#)
- Results of internal audit services. See Section [6.3 Communicating Results and Monitoring Action Plans](#)

Reference: IIA Global Standard 2.3, 7.1, 8.1, 8.3, and 8.4

8.2.2 Other Reporting Requirements

The director must report to the appropriate authorities when any of these items occur:

- The impact when resources are insufficient to achieve the internal audit plan, and how any resource shortfalls can be addressed. See Section [5.1.4 Planning](#)
- The impact of technology limitations on the effectiveness or efficiency of the internal audit program. See Section [5.2.3 Technology Resources](#)

Reference: IIA Global Standard 8.2 and 10.3

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9.0 Nonconformance and Reporting

9.1 Late or Non-Submission

9.1.1 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 = July 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)

9.1.2 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)

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9.2 Corrective Action Plan

9.2.1 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 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)

9.2.2 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 reported to the Council of Internal Auditing.

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

9.3 Reporting To the Council of Internal Auditing

9.3.1 Internal Audit Director

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)

9.3.2 Head of the Agency

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)

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9.3.3 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.

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

10.0 OBSTRUCTION OF INTERNAL AUDIT

10.1 Purpose And Reporting

10.1.1 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.

10.1.2 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.

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10.2 Responsibilities

10.2.1 Executive Director Responsibility

The Executive Director will review the information reported by the director. The Executive Director may provide advice to the director on actions they may take to resolve the issue. The internal audit director has the discretion 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 audit director request to have this information reported to the Council, the Executive Director will notify the Council Chair within five business days of the request.

10.2.2 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.

11.0 GLOSSARY

Advisory Services

Services through which internal auditors provide advice to an organization's stakeholders without providing assurance or taking on management responsibilities. The nature and scope of advisory services are subject to agreement with relevant stakeholders. Examples include advising on the design and implementation of new policies, processes, systems, and products; providing forensic services; providing training; and facilitating discussions about risks and controls. "Advisory services" are also known as "consulting services."

Assurance Services

Services through which internal auditors perform objective assessments to provide assurance. Examples of assurance services include compliance, financial, operational or performance, and technology engagements. Internal auditors may provide limited or reasonable assurance, depending on the nature, timing, and extent of procedures performed.

Appropriate Authority

The agency head and/or the Board

Board

Highest-level body charged with governance, such as:

- A board of directors.
- An audit committee.
- A board of governors or trustees.
- A group of elected officials or political appointees.
- Another body that has authority over the relevant governance functions.

In an organization that has more than one governing body, "board" refers to the body or bodies authorized to provide the internal audit function with the appropriate authority, role, and responsibilities.

If none of the above exists, "board" should be read as referring to the group or person that acts as the organization's highest level governing body. Examples include the head of the organization and senior management.

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.

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Competency – Knowledge, skills, and abilities.

Compliance

Adherence to laws, regulations, contracts, policies, procedures, and other requirements.

Conflict of Interest

A situation, activity, or relationship that may influence, or appear to influence, an internal auditor's ability to make objective professional judgments or perform responsibilities objectively.

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.

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.

Control Processes

The policies, procedures, and activities designed and operated to manage risks to be within the level of an organization's risk tolerance.

Criteria

In an engagement, specifications of the desired state of the activity under review.

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 Global Standards. The specific job title and/or responsibilities of the internal audit director may vary across organizations. internal auditor, and internal audit director.

Engagement

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A specific internal audit assignment or project that includes multiple tasks or activities designed to accomplish a specific set of related objectives. See also “assurance services” and “advisory services.”

Engagement Conclusion – Internal auditors’ professional judgment about engagement findings when viewed collectively. The engagement conclusion should indicate satisfactory or unsatisfactory performance.

Engagement Objectives

Statements that articulate the purpose of an engagement and describe the specific goals to be achieved.

Engagement Planning

Process during which internal auditors gather information, assess and prioritize risks relevant to the activity under review, establish engagement objectives and scope, identify evaluation criteria, and create a work program for an engagement.

Engagement Results

The findings and conclusion of an engagement. Engagement results may also include recommendations and/or agreed upon action plans.

Engagement Supervisor

An internal auditor responsible for supervising an internal audit engagement, which may include training and assisting internal auditors as well as reviewing and approving the engagement work program, workpapers, final communication, and performance. The chief audit executive may be the engagement supervisor or may delegate such responsibilities.

Engagement Work Program

A document that identifies the tasks to be performed to achieve the engagement objectives, the methodology and tools necessary, and the internal auditors assigned to perform the tasks. The work program is based on information obtained during engagement planning.

Finding

In an engagement, the determination that a gap exists between the evaluation criteria and the condition of the activity under review. Other terms, such as “observations,” may be used.

Fraud

Any intentional act characterized by deceit, concealment, dishonesty, misappropriation of assets or information, forgery, or violation of trust perpetrated by individuals or organizations to secure unjust or illegal personal or business advantage.

Governance

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The combination of processes and structures implemented by the board to inform, direct, manage, and monitor the activities of the organization toward the achievement of its objectives.

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)

Impact

The result or effect of an event. The event may have a positive or negative effect on the entity's strategy or business objectives.

Independence

The freedom from conditions that may impair the ability of the internal audit function to carry out internal audit responsibilities in an unbiased manner.

Inherent Risk

The combination of internal and external risk factors that exists in the absence of any management actions.

Integrity

Behavior characterized by adherence to moral and ethical principles, including demonstrating honesty and the professional courage to act based on relevant facts.

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.

Internal Audit Mandate

The internal audit function's authority, role, and responsibilities, which may be granted by the board and/or laws and regulations.

Internal Audit Manual

The chief audit executive's documentation of the methodologies (policies, processes, and procedures) to guide and direct internal auditors within the internal audit function.

Internal Audit Plan

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A document, developed by the chief audit executive, that identifies the engagements and other internal audit services anticipated to be provided during a given period. The plan should be risk based and dynamic, reflecting timely adjustments in response to changes affecting the organization.

Internal Auditing

An independent, objective assurance and advisory service 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 governance, risk management, and control processes.

Likelihood

The possibility that a given event will occur.

May

As used in the Considerations for Implementation of the Global Internal Audit Standards, the word "may" describe optional practices to implement the Requirements.

Methodologies

Policies, processes, and procedures established by the chief audit executive to guide the internal audit function and enhance its effectiveness.

Must

The Global Internal Audit Standards use the word "must" to specify an unconditional requirement.

Objectivity

An unbiased mental attitude that allows internal auditors to make professional judgments, fulfill their responsibilities, and achieve the Purpose of Internal Auditing without compromise.

Outsourcing

Contracting with an independent external provider of internal audit services. Fully outsourcing a function refers to contracting the entire internal audit function, and partially outsourcing (also called "cosourcing") indicates that only a portion of the services are outsourced.

Periodically

At regularly occurring intervals, depending on the needs of the organization, including the internal audit function.

Professional Skepticism

Questioning and critically assessing the reliability of information.

Public Sector

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Governments and all publicly controlled or publicly funded agencies, enterprises, and other entities that deliver programs, goods, or services to the public.

Quality Assurance and Improvement Program

A program established by the chief audit executive to evaluate and ensure the internal audit function conforms with the Global Internal Audit Standards, achieves performance objectives, and pursues continuous improvement. The program includes internal and external assessments.

Residual Risk

The portion of inherent risk that remains after management actions are implemented.

Risk

The positive or negative effect of uncertainty on objectives

Risk Assessment

The identification and analysis of risks relevant to the achievement of an organization's objectives. The significance of risks is typically assessed 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 organization's objectives.

Risk Tolerance

Acceptable variations in performance related to achieving objectives.

Root Cause

Core issue or underlying reason for the difference between the criteria and the condition of an activity under review.

Senior Management

The highest level of executive management of an organization that is ultimately accountable to the board for executing the organization's strategic decisions, typically a group of persons that includes the chief executive officer or head of the organization.

Should

As used in the Considerations for Implementation of the Global Internal Audit Standards, the word "should" describe practices that are preferred but not required.

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.

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Stakeholder

A party with a direct or indirect interest in an organization's activities and outcomes. Stakeholders may include the board, management, employees, customers, vendors, shareholders, regulatory agencies, financial institutions, external auditors, the public, and others.

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.

Workpapers

Documentation of the internal audit work done when planning and performing engagements. The documentation provides supporting information for engagement findings and conclusions.

Work Program

A document that identifies the tasks to be performed to achieve the engagement objectives, the methodology and tools necessary, and the internal auditors assigned to perform the tasks. The work program is based on information obtained during engagement planning.

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12.0 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
October 13, 2021	Overall review. Addition of the requirements surrounding the self-	All section	Change in IIA IPPF and COIA approved for

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Date of Revision	Topic	Section	Reference
	assessment maturity model. Removed all links to outside sources. Added IIA implementation guide as a reference		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
July 1, 2024	Overhaul based on creation of the IIA Global Standards	Modify all Section except Section 1	