

COUNCIL OF INTERNAL AUDITING

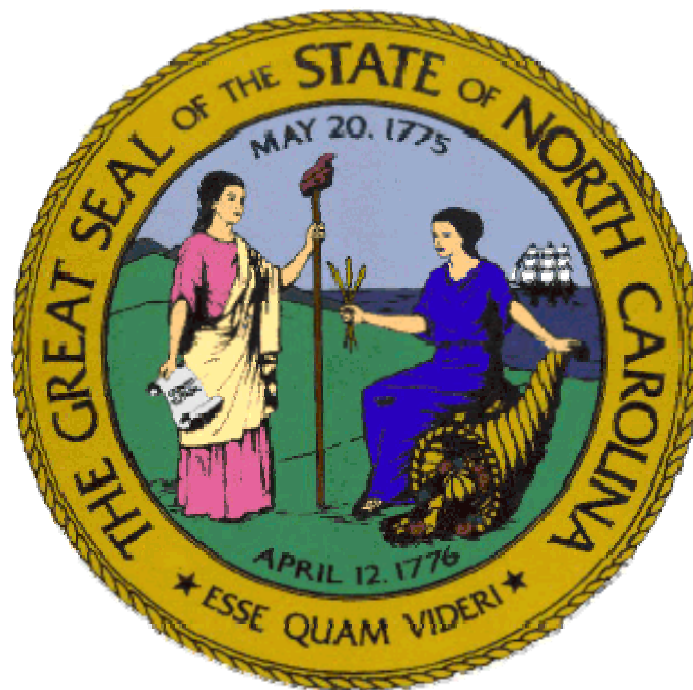
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North Carolina

Internal Audit Technical Bulletins and Best Practices



<http://www.osbm.state.nc.us>

**STATE OF NORTH CAROLINA
COUNCIL OF INTERNAL AUDITING
OFFICE OF INTERNAL AUDIT
TECHNICAL BULLETINS AND BEST PRACTICES**

Updated: May 27, 2008

INTRODUCTION

The Office of Internal Audit prepares and updates the Internal Audit Technical Bulletins and Best Practices 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 responses and comments from the Council. This Manual is for guidance and internal auditors should use professional judgment in the application of these guidelines. It is the responsibility of department management and internal audit staffs to acquaint themselves with these bulletins and best practices.

The Manual is a collection of official responses to questions presented to the Council. The responses are considered technical bulletins to be used by State agencies subject to the North Carolina Internal Audit Act. In addition, all best practices identify and approved by the Council are included in this manual.

The number system in this manual identifies whether an item is a technical bulletin (TB) or best practice (BP) and the numbers represent the meeting date, year and month, and item number. Example: TB08-01-13 is technical bulletin #13 approved during the January 2008 meeting.

There are several features that should facilitate referencing and navigating through the Manual. First, there is a table of contents at the beginning of the manual that will assist users with quick referencing of items addressed during each Council meeting. Second, specific General Statute citations are referenced throughout the Manual and the online version includes direct links to the appropriate General Statute. Third, specific Professional Practice Framework Standards issued by the Institute for Internal Auditors (IIA) and Government Auditing Standard issued by the Comptroller General of the United States citations are referenced throughout the Manual and the online version includes direct links to the appropriate Standard. Finally, the index at the end of the Manual will assist users by referencing Technical Bulletins and Best Practices by topic and the online version includes direct links to the appropriate Technical Bulletin or Best Practices.

The Office of Internal Audit will update this manual after each Council meeting and email all new technical bulletins and best practices to the Director of Internal Auditing of each State agency. The header at the top of each page in the Manual reflects the date of the most recent updates to this manual. It is the responsibility of the department management and internal audit staff to monitor updates for compliance if required.

**STATE OF NORTH CAROLINA
COUNCIL OF INTERNAL AUDITING
OFFICE OF INTERNAL AUDIT
TECHNICAL BULLETINS AND BEST PRACTICES**

Updated: May 27, 2008

Questions, comments, or suggestions concerning the technical bulletins, best practices or internal auditing may be sent to InternalAuditInfo@lists.ncmail.net or you can call 919-807-4700.

Table of Contents

TB08-01-01 Record Retention Requirements	4
TB08-01-02 Confidential Findings.....	6
TB08-01-03 Working Papers Confidentiality.....	6
TB08-01-04 Standards: IIA, GAS, and Other	7
TB08-01-05 Additional Standards.....	8
TB08-01-06 Director of Internal Auditing Classification	8
TB08-01-07 Implementation of Internal Controls.....	9
TB08-01-08 Evaluating Internal Audit Departments	9
TB08-01-09 Reporting Requirements for University Internal Auditors.....	10
TB08-01-10 Internal Audit Definition.....	10
TB08-01-11 Outdated Legislation Terminology	10
TB08-01-12 Qualifications for Entry Level Auditor	11
TB08-01-13 University Representation on Council	11
TB08-05-01 Internal Audit Reports in the Council’s Central Database.....	12
TB08-05-02 Request for Reports in the Council’s Central Database.....	12
TB08-05-03 Confidentiality of Audit Plans in the Council’s Central Database	13
TB08-05-04 Submitting Revised Annual Audit Plan.....	13

[Index](#)

STATE OF NORTH CAROLINA
INTERNAL AUDIT MANUAL
COUNCIL OF INTERNAL AUDITING
OFFICE OF INTERNAL AUDIT

Updated: May 27, 2008

**TECHNICAL BULLETINS
JANUARY 30, 2008**

TB08-01-01 Record Retention Requirements

Question # 1

Record retention requirements:

- What needs to be retained (work papers and/or reports)?
- How long and in what format should records be retained?
- Take into consideration that for some agencies record retention requirements may depend on the funding source since federal retentions and state or agency retentions are different.

Response:

Records that should be retained include reports and working papers that support the reports. Also, working papers that aid in the planning, performance, and review of engagements should be retained. Standards on record retention and the State's rules for record retention related to audits are outlined below. The minimum retention time will be three years with consideration for other legal or regulatory requirements when retention times are different, records should be retained for the longer of the two periods. [For example, [N.C. Gen. Stat. §143B-216.51\(d\)](#) requires the Internal Auditor for the Department of Health and Human Services to keep all audit reports and other documents for ten (10) years. In that case, records should be retained for the longer period – ten years.]

Standards for the Professional Practice of Internal Auditing Implementation [Standard 2330.A2](#) (Assurance Engagements) states:

“The chief audit executive should develop retention requirements for engagement records. These retention requirements should be consistent with the organization's guidelines and any pertinent regulatory or other requirements.”

[Practice Advisory 2330-1](#): Recording Information and [Practice Advisory 2330A1.1](#): Control of Engagement records issued by the Institute of Internal Auditors.

Government Auditing Standards state:

**STATE OF NORTH CAROLINA
INTERNAL AUDIT MANUAL
COUNCIL OF INTERNAL AUDITING
OFFICE OF INTERNAL AUDIT**

Updated: May 27, 2008

“4.22 Audit organizations should establish policies and procedures for the safe custody and retention of audit documentation for a time sufficient to satisfy legal, regulatory, and administrative requirements for record retention. Whether audit documentation is in paper, electronic, or other media, the integrity, accessibility, and retrievability of the underlying information could be compromised if the documentation is altered, added to, or deleted without the auditors' knowledge, or if the documentation is lost or damaged. For audit documentation that is retained electronically, the audit organization should establish information systems controls concerning accessing and updating the audit documentation.”

General Schedule For State Agency Records published by the NC Office of Archives and History Archives, Records Section, Government Records Branch state:

“[ITEM G54](#). Audit Reports File. Reference copies of audit reports and other records reflecting the financial status of an agency.

DISPOSITION INSTRUCTIONS: Destroy in office after 3 years. “

Please note that work papers for internal audits are not generally public records under state law, although the internal audit reports themselves are public records. [N.C. Gen. Stat. §143B-426.39\(1\)](#) permits the State Controller to review a State agency’s compliance with “prescribed uniform State accounting system standards, as well as applicable legal and constitutional requirements related to compliance with such standards.” [N.C. Gen. Stat. §143B-426.39B](#) provides that work papers and other supportive material created as a result of the State Controller’s compliance review are not public records although the Controller must provide work papers to the State Auditor and may provide them for inspection by “duly authorized representatives of the State and federal governments in connection with matters officially before them.” [N.C. Gen. Stat. §143B-216.51\(d\)](#) provides that audit work papers of the Internal Auditor for the State Department of Health and Human Resources “shall be kept confidential” although they may be made available for inspection “by duly authorized representatives of the State and federal governments in connection with some matter officially before them.” The DHHS statute also provides that internal audit work papers shall be retained “according to an agreement between the DHHS Internal Auditor and State Archives, suggesting that the General Schedule for State Agency Records may not apply to DHHS internal audit work papers.

If an agency has any questions about whether internal audit work papers are public records or not, we suggest the agency consult its counsel.

**STATE OF NORTH CAROLINA
INTERNAL AUDIT MANUAL
COUNCIL OF INTERNAL AUDITING
OFFICE OF INTERNAL AUDIT**

Updated: May 27, 2008

TB08-01-02 Confidential Findings

Question # 2

Confidentiality of information in the Council's central database of findings: Will findings of a confidential nature (e.g. information technology, personnel investigations, etc.) be required to be reported and if so, would they be included in the central database?

Response: The Council of Internal Auditing does not have the expectation of being provided confidential or protected information. Findings submitted to the Council should have all confidential or protected information redacted.

TB08-01-03 Working Papers Confidentiality

Question # 3

Workpaper Confidentiality: Statutes were changed in the last legislative session to remove provisions which specifically provided for the confidentiality of university workpapers. The confidentiality of audit workpapers prepared by the Office of State Auditor (N.C. Gen. Stat. §147-64.6(d)) and the Department of Health and Human Services (N.C. Gen. Stat. §143B-216.51(d)) remain protected by statute.

Response: Legislative change is necessary to ensure uniform, workpaper confidentiality status for all state agency programs of internal auditing. The Council will work with university representatives to seek a resolution. See also the response to [Question #1](#) above.

**STATE OF NORTH CAROLINA
INTERNAL AUDIT MANUAL
COUNCIL OF INTERNAL AUDITING
OFFICE OF INTERNAL AUDIT**

Updated: May 27, 2008

TB08-01-04 Standards: IIA, GAS, and Other

Question # 4

Required Standards: G.S. 143-746(b) requires internal auditors to use Institute for Internal Auditors (IIA) standards or Government Auditing Standards. What are the potential implications if an internal audit department is performing an engagement that necessitates the use of a standard other than IIA or Government Auditing Standards (e.g. if required by other statutes or laws)? Would they be considered non-compliant? Also, some CPA's had concerns that they must follow AICPA standards, which do not always coincide with IIA standards. How will this be addressed when evaluating an internal audit department?

Response: The standards for internal auditors cited below allow for deviation as long as proper documentation is provided. Thus, with proper disclosure there should be no problem with conflicts of standards and other laws and regulations.

The introduction of the [Standards for the Professional Practice of Internal Auditing](#) issued by the Institute for Internal Auditors states:

“If internal auditors are prohibited by laws or regulations from complying with certain parts of the *Standards*, they should comply with all other parts of the *Standards* and make appropriate disclosures”.

Governmental Auditing Standards states:

[4.21](#) When auditors do not comply with applicable GAGAS requirements due to law, regulation, scope limitations, restrictions on access to records, or other issues impacting the audit, the auditors should document the departure from the GAGAS requirements and the impact on the audit and on the auditors' conclusions. This applies to departures from both mandatory requirements and presumptively mandatory requirements where alternative procedures performed in the circumstances were not sufficient to achieve the objectives of the standard.

**STATE OF NORTH CAROLINA
INTERNAL AUDIT MANUAL
COUNCIL OF INTERNAL AUDITING
OFFICE OF INTERNAL AUDIT**

Updated: May 27, 2008

TB08-01-05 Additional Standards

Question # 5

Adding Other Standards to Legislation: Should other standards be added to the legislations?

Response: Since the standards cited in the legislation allow for other standards to be used when legally necessary, no other reference is needed.

TB08-01-06 Director of Internal Auditing Classification

Question # 6

Classification of Internal Audit Director's & Job Protection: G.S. 143-746(d) requires each Agency Head to appoint a director of internal auditing. Would this position be exempt or non-exempt? What job protection would the auditor have if they are told (by management) not to report a finding and the auditor goes to the Council?

Response: N.C. Gen. Stat. 143-746(d) does not specify whether the Director of Internal Auditing position should be an exempt or non-exempt position. N.C. Gen. Stat. § 126-5(b) provides the statutory definitions for state employee positions that are exempt from the State Personnel Act. In some cases the Director of Internal Auditing will be in a position that is responsible for other duties in addition to that of Director of Internal Auditing. This and other factors will determine whether or not a position is exempt or non-exempt under N.C. Gen. Stat. § 126-5(b). However, regardless of classification, it is essential that the position of Director of Internal Auditing be protected from undue interference by management so that independence is assured. In that regard, please note that N.C. Gen. Stat. § 143- 747(c) (11) (a) does allow the Council of Internal Auditing to “conduct hearings relative to any attempts to interfere with, compromise, or intimidate an internal auditor.”

**STATE OF NORTH CAROLINA
INTERNAL AUDIT MANUAL
COUNCIL OF INTERNAL AUDITING
OFFICE OF INTERNAL AUDIT**

Updated: May 27, 2008

TB08-01-07 Implementation of Internal Controls

Question # 7

Implementation of Internal Controls: Per G.S. 143-746 the internal audit function is to implement an effective system of internal controls. It should be noted that auditors do not implement anything. Auditors assess risk and provide recommendations. It can be interpreted that the auditors are accountable for the agency implementing internal controls; the auditors do not have that authority.

Response: A proposed change of wording for GS143-746 (a)(1) will be requested from “implements” to “promotes” and includes reference to § 143D-7 which states in part “management of each state agency bears full responsibility for establishing and maintaining a proper system of internal control within that agency.”

TB08-01-08 Evaluating Internal Audit Departments

Question # 8

Criteria for measuring success: When evaluating the effectiveness of an Internal Audit Department, will the Internal Audit Council take the following into consideration?

- ◆ Audit plans are fluid and should be flexible enough to accommodate changes.
- ◆ Other reviews performed at the request of management that are not included in the internal audit plan and/or for which a standard report has not been issued. How would an Internal Audit function be evaluated if they had a plan but were not able to execute everything on the plan because of a special project (assessment) that came up during the year?
- ◆ The differences in types of operations and activities performed by each agency may result in not being able to compare departments against each other.

Response: The statute is silent as to the evaluation of the effectiveness of an Internal Audit Department other than through peer reviews. However, any evaluation or peer review should take the above concerns into consideration.

**STATE OF NORTH CAROLINA
INTERNAL AUDIT MANUAL
COUNCIL OF INTERNAL AUDITING
OFFICE OF INTERNAL AUDIT**

Updated: May 27, 2008

TB08-01-09 Reporting Requirements for University Internal Auditors

Question # 9

Reporting Requirements for University Internal Auditors: As the legislation is currently written, the universities are not in compliance with the law as the internal auditors report to the Chancellor administratively and Board of Trustees functionally rather than the President. Can this reporting structure be changed?

Response: Plans are to propose a revision to the legislation in the short session to amend this to follow guidelines in audit standards.

TB08-01-10 Internal Audit Definition

Question # 10

Inclusion of Internal Audit Definition: Should the definition of Internal Audit be included in the legislation?

Response: The definition of Internal Audit is included in the Standards for the Professional Practice of Internal Auditing issued by the Institute for Internal Auditors. Since these standards are cited in the legislation as the standards to follow, no other reference to the definition is needed.

TB08-01-11 Outdated Legislation Terminology

Question # 11

Outdated Terminology in Legislation: In 143-746 (a) (4) (c) the terminology used is outdated. Instead of “Electronic data processing system and controls”, could the term ‘information technology system’ be substituted?

Response: A proposed change of wording for G.S .143-746 (a) (4) will be requested to reflect current technology terminology.

**STATE OF NORTH CAROLINA
INTERNAL AUDIT MANUAL
COUNCIL OF INTERNAL AUDITING
OFFICE OF INTERNAL AUDIT**

Updated: May 27, 2008

TB08-01-12 Qualifications for Entry Level Auditor

Question # 12

Qualifications of Entry Level Auditors: The legislation cites the qualifications of an internal auditor and does not allow for entry level positions. Is there anyway to have progression into positions based on experience?

Response: The Council is currently working with the Office of State Personnel to determine the available options for internal auditor positions.

TB08-01-13 University Representation on Council

Question # 13

University Representation on Council: Would it be possible for the university system to have a representative on the Council?

Response: Legislative change is necessary to alter the structure of the Council. The Council will consider recommending change to the legislation adding a university representative.

STATE OF NORTH CAROLINA
INTERNAL AUDIT MANUAL
COUNCIL OF INTERNAL AUDITING
OFFICE OF INTERNAL AUDIT

Updated: May 27, 2008

TECHNICAL BULLETINS
MAY 14, 2008

TB08-05-01 Internal Audit Reports in the Council's Central Database

Question # 1

Internal Audit Reports in the Central Database: How will the information in internal audit reports be handled in the following situations?

- Investigative reports
- Personnel issues
- Information subject to HIPAA law
- Sensitive information technology information

Response: All reports should be submitted to the Council of Internal Auditing as outlined in G.S. 143-747.9. However, the Council has gone on record stating the following. The Council of Internal Auditing does not have the expectation of being provided confidential or protected information. Findings submitted to the Council should have all confidential or protected information redacted.

TB08-05-02 Request for Reports in the Council's Central Database

Question # 2

Request for Reports in the Council's Central Database: Once reports are submitted to the Statewide Office of Internal Audit for input in the central database, will requests for reports be referred to the State agency issuing the report or be released by the Statewide Office of Internal Audit?

Response: In compliance with the public records laws, requests for reports housed in the central database will be filled by the Office of Internal Audit. However, State agencies will be notified when any of their reports have been released.

**STATE OF NORTH CAROLINA
INTERNAL AUDIT MANUAL
COUNCIL OF INTERNAL AUDITING
OFFICE OF INTERNAL AUDIT**

Updated: May 27, 2008

TB08-05-03 Confidentiality of Audit Plans in the Council's Central Database

Question # 3

[Confidentiality of Audit Plans in the Council's Central Database: Will the audit plans submitted for inclusion in the central database be kept confidential?](#)

Response: All audit plans should be submitted to the Council of Internal Auditing and included in the Central Database as outlined in G.S. 143-747(c).9. As with audit reports, the Council does not have the expectation of being provided confidential or protected information. However, once information has been included in the central database it is public information unless it is protected by law.

TB08-05-04 Submitting Revised Annual Audit Plan

Question # 4

[Submitting Revised Audit Plans: Should agencies submit revised audit plans throughout the year and if so, how often?](#)

Response: Revised audit plans should be submitted to the Council when substantive or material changes are made to the plan.

**STATE OF NORTH CAROLINA
INTERNAL AUDIT MANUAL
COUNCIL OF INTERNAL AUDITING
OFFICE OF INTERNAL AUDIT**

Updated: May 27, 2008

INDEX

<u>Topic</u>	<u>Reference</u>
Annual Audit Plan.....	TB08-05-03 , TB08-05-04
Central Database	TB08-01-02 , TB08-05-01 , TB08-05-02 , TB08-05-03 , TB08-05-04
Confidential Findings.....	TB08-01-02 , TB08-05-01 , TB08-05-02
Confidentiality of Central Database.....	TB08-01-02 , TB08-05-01 , TB08-05-02 , TB08-05-03
Confidentiality of Working Paper.....	TB08-01-01 , TB08-01-03
Council Representation.....	TB08-01-13
Deviation from Standards	TB08-01-04 , TB08-01-05
Director of Internal Auditing	TB08-01-06 , TB08-01-09
Electronic Data Processing	TB08-01-11
Entry Level Auditor Qualification	TB08-01-12
Evaluating Internal Audit Departments	TB08-01-08
Internal Audit Definition.....	TB08-01-10
Internal Audit Department	TB08-01-08
Internal Audit Reports.....	TB08-05-01 , TB08-05-02
Internal Controls	TB08-01-07
Implementation of Internal Controls.....	TB08-01-07
Legislation Terminology.....	TB08-01-11
Outdated Legislation Terminology	TB08-01-11
Peer Review	TB08-01-08

**STATE OF NORTH CAROLINA
INTERNAL AUDIT MANUAL
COUNCIL OF INTERNAL AUDITING
OFFICE OF INTERNAL AUDIT**

Updated: May 27, 2008

INDEX

<u>Topic</u>	<u>Reference</u>
Protected Information	TB08-05-01 , TB08-05-02 , TB08-05-03 ,
Public Record.....	TB08-01-01 , TB08-05-01 , TB08-05-02 , TB08-05-03
Qualification for Auditors.....	TB08-01-12
Record Retention	TB08-01-01
Reporting Requirements for Internal Auditors	TB08-01-09 ,
Sensitive Data	TB08-05-01
Standards Compliance	TB08-01-04 , TB08-01-05
University Representation on Council.....	TB08-01-13
Working Papers Documentation.....	TB08-01-01
Working Papers Confidentiality	TB08-01-01 , TB08-01-03