

October 26, 2007

TO: Internal Audit Council

FROM: Internal Auditors in State Government

RE: Implementation of the Internal Audit Act (House Bill 1401)

Dear members,

We understand that you are in the planning phase of implementing the Internal Audit Act. To facilitate the process we have summarized specific items for which we will look to the Internal Audit Council to provide guidance and clarification. Our goal is to work with you ensure that these concerns are addressed up front and considered in your planning process. We look forward to your response and working with you in the future.

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.
2. Confidentiality of internal audit working papers: Current statutes only provide for confidentiality of work papers for the State Auditor's Office and Department of Health & Human Services Internal Audit.
3. 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?
4. Required Standards: G.S. 143-739 requires internal auditors to use 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?
5. Classification of Internal Audit Director's & Job Protection: G.S. 143-179 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?
6. Implementation of Internal Controls: Per G.S. 143-179 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.
7. 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.