A BILL TO BE ENTITLED
AN ACT TO ESTABLISH MINIMUM KEY PERFORMANCE INDICATORS FOR INTERNAL AUDITS.

The General Assembly of North Carolina enacts:

SECTION 1. G.S. 143-746 reads as rewritten:

"§ 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. – In addition to the requirements of subsection (a) of this section, each agency head shall be responsible for that agency's internal audit unit meeting the required key indicators established by the Council under G.S. 143-747(c)(3a).
(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 were reported in accordance with required standards.
(c) Appointment and Qualifications of Internal Auditors. – Any State employee who performs the internal audit function 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, 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) Insufficient Personnel. – 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."

SECTION 2. G.S. 143-747 reads as rewritten:

"§ 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.
(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.

(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.

(a1) The Council shall hire an Executive Director as selected by a majority of the Council. The Executive Director shall serve for a term of four years and may be reappointed to the position by the Council. The Council may remove the Executive Director for misfeasance, malfeasance, nonfeasance, or neglect of duty.

(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 or 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.
(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.
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.

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

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.

Gather and assess the extent to which State agencies have met the minimum key performance indicators required under subdivision (3a) of this subsection. The Council shall report its findings to the Joint Legislative Commission on Governmental Operations on October 1, 2022, and annually thereafter.

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

SECTION 3. This act becomes effective July 1, 2021.